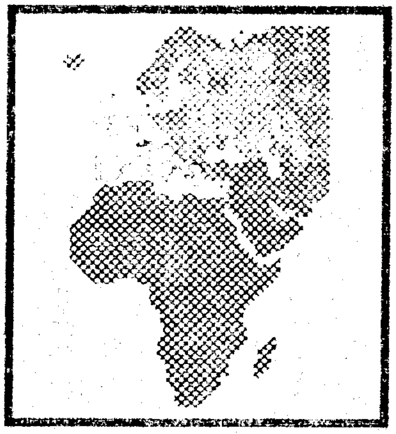
PHILIP MORRIS EFTA, EASTERN EUROPE, MIDDLE EAST, AFRICA

LONG RANGE PLAN

1990-1992



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EEMA REGION
LONG RANGE PLAN 1990-1992

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DECEMBER 1989

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HIGHLIGHTS

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EEMA REGION

A. **HIGHLIGHTS OBJECTIVES**

	LE 1989	OB 1990	1991	1992	%CAG 1989LE -1992
Unit Volume (billions)	55.4	58.5	63.4	67.3	6.7%
($ millions)					
Net Operating Revenues	$923.0	$1,006.5	$1,116.7	$1,206.0	9.3%
Net Marginal Contribution	$570.5	$609.9	$674.2	$729.8	8.6%
Income from Operations	$281.3	$310.6	$353.8	$398.9	12.3%
Net Income	$190.6	$209.6	$238.6	$268.6	12.1%

Based on latest estimates for 1989, net income for the EEMA Region will grow 12.1% per annum over the three year Plan period. Unit volume gains will average 6.7% per annum.

The outlook for the Region is stronger than foreseen in last year's Plan. This is due in large part to Turkey and to our Eastern European markets. More aggressive pricing in Finland coupled with our higher market share and renewed growth for Marlboro Red in Switzerland and Sweden are also factors. Our five major markets - Turkey, Switzerland, Finland, Saudi Arabia and Kuwait - which today account for three quarters of Area Income from Operations will contribute 43% of the total income gain from 1989 to 1992, and 36% of the unit volume gain. In 1992, these markets will represent two thirds of Area Income from Operations. Other important contributors to income growth will be the Eastern Europe hard currency business, the Levant, Sweden and North Africa, contributing 13%, 11%, 5% and 5%, respectively.

COMPETITION

RJR has a clear priority to gain unit volume and consistently uses price as its primary means to achieve this. While we continue to make progress in containing their growth in most of our markets, their approach to pricing is affecting our ability to pursue our pricing objectives, in particular in the GCC and North Africa. We expect their strategy to expand to the Nordic markets, particularly in Finland. This will affect both export and license terms. RJR is willing to cut price on its premium brands, Winston in particular, and is aggressively pursuing low price segments with Gold Coast and Monte Carlo, where Brazilian sourcing is likely to become increasingly important. Switzerland is perhaps the only market where they have not used retail price as a weapon.

In the wake of the recent takeover attempt, BAT will bring greater management attention to its tobacco business, at the same time as Brown & Williamson is increasing its efforts to develop its international business. Consistent with the strategy in the US, Viceroy is being promoted on the basis of price in the GCC and the Levant. We expect them to continue their international roll-out of Lucky Strike, with price used selectively for market penetration, as in Switzerland. BAT uses price, as well, for its ethnic and regional brands, like Player's Gold Leaf in Saudi Arabia and Gladstone in Africa. We also see a departure from their past policy for Benson & Hedges where their recent move into license manufacture of B&H in Burkina Faso is a first.

While the change in printed numbers for Barclay from 1 mg. to 5 mg. tar will cause diversion of management attention and salesforce focus to compensate for any market disruptions, it will also provide them with the opportunity to line extend the Barclay family with a real 1 mg. product. In the

interest of maximizing the profitability of their tobacco business, we expect them to give greater attention to the structure of their business, as in the Nordic markets, especially for the Prince franchise. They will also continue to exploit German sourcing and Deutsche Mark pricing to build a larger position in the Eastern Europe duty free business.

Rothmans will continue to be the weakest international competitor. Persistent volume erosion will not be turned around by their use of price and value propositions. Lack of success in entering the US blend segment is their major strategic failure.

Among our other competitors, both Reemtsma and Austria Tabakwerke have a significant presence in Eastern Europe, and the Bolloré Technologies Group is becoming a strong contender in West and Central Africa.

GROWTH PROSPECTS

Turkey remains our most significant growth prospect during the Plan period, both in the domestic and the duty free business. The opportunities for expanding in Eastern Europe will increase, spearheaded by our success in achieving the dominant competitive position in the Yugoslavia hard currency sector. Our willingness to enter into the Eastern European markets on a license basis has given us a competitive advantage which we will be able to exploit both on the license/domestic side and in the evolving hard currency side throughout the Area. The USSR domestic market, by its sheer size, offers the most significant long term potential for the Region. Near term we will expand our business in DDR, Poland and Hungary. During the Plan period we will continue to actively pursue all avenues which will gain market access for Philip Morris. Establishing Marlboro is our primary objective, with the development of mid-priced brands a secondary strategy. To fully exploit the growth potential of Eastern Europe, we will also evaluate the long term benefits of making equity investments, and have already been requested by Eger Tobacco in Hungary to consider such a move.

Exports to Iraq will be developed to their maximum as will our license business in Egypt and Algeria. Optimal solutions to the West & Central market access constraints will also be sought.

Please refer to the Business Initiatives Section for our strategies for Eastern Europe, the USSR, Iraq and West & Central Africa. Our local manufacture project for Turkey is covered in the market section.

PRIORITY STRATEGIES

PEOPLE

Good people and an efficient organization are critical to our success. We will continue to adapt our HQ and field structures to the changing requirements of our business. For example, Corporate Affairs is becoming increasingly important, and warrants more resources in order to resolve issues to the benefit of the tobacco industry. Managing the export business for Turkey as well as preparing for the local manufacture venture requires more resources. We have modified our Middle East and Scandinavia Area organizations to strengthen and facilitate our field activities, exploiting HQ expertise in order to streamline field operations where appropriate. Development of our people remains key, both through training to meet expanding job requirements and to raise job effectiveness, as well as through internal transfers which also foster career development.

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PRICING

Our long term objective is to retain PM's position of pricing leadership, and to maximize the prices which we know our products can support, and so, to improve unit margins. In some cases as in Turkey, Finland and Eastern Europe duty free, this also means preempting retail price increases which would otherwise be driven by tax increases.

In markets subject to defacto price control, as in Switzerland, the Scandinavian markets and parts of Africa, our objective is to maximize prices, such that we exceed cost base increases, while avoiding undesired margin scrutiny by the authorities wherever threatened.

For selected markets, we will use flexible pricing to retain the affordability and competitiveness of our products, as in the GCC and the Levant, or to establish a presence in growth markets, for example in Iraq and UAE exports. In certain markets, this also requires that we expand our product portfolio into the below premium price and lower price segments, in the GCC, the Levant, Eastern Europe and West & Central Africa.

MARLBORO

We shall continue to exploit Marlboro's unparalleled international image and strong competitive position. Our objective is to maximize the Marlboro family's potential in all markets:

- Marlboro Red will be exploited within the international premium full flavor segment, in particular in Turkey, Switzerland, Eastern Europe, Sweden and parts of the GCC. In new markets, Marlboro Red is consistently used to spearhead market penetration. In markets where Marlboro Red is well established, we will reinforce its drawing power through high impact consumer communications, and targeted promotions and switch selling activities.

- Marlboro Lights will receive increasing support to capitalize on the growing preference for LTN products. The potential is considerable as the LTN segment is only beginning to emerge in Turkey, Eastern Europe and parts of Africa. Marlboro Lights will move into license production in Africa in 1991, with MTOA in Senegal and SITAB in the Ivory Coast; it has been manufactured by Eastern in Egypt since 1987. We will initiate our first Marlboro Lights license for Eastern Europe in 1990 with Eger Tobacco in Hungary.

- Marlboro Ultralights will be launched into those markets where the SLTN segment, almost exclusively premium priced, is showing strong growth potential - the GCC, Switzerland and Scandinavia/Finland. As consumer interest in SLTN evolves, Marlboro Ultralights will be an increasingly important component of our Marlboro strategy. It is foreseen for license production during the Plan period only in Finland.

- Marlboro Menthol and Marlboro Lights Menthol will continue to be developed in the Nordic markets where the menthol taste segment is important, and used in other markets where menthol is a factor.

By 1992, Marlboro variants other than Marlboro Red will account for 15% of the total Marlboro unit volume, versus 12% today.

NEW PRODUCTS

Product launches and line extensions remain a vital element of the Region's strategy. Introductions in 1990 and onwards will provide 3.5 billion units to the Region in 1992. This equates to 5% of the Region's total unit volume

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in 1992 and 30% of the Region's gain in annual shipments over the three year Plan period.

New Marlboro introductions will generate 47% of this volume, primarily due to our business initiative planned for the USSR domestic market, our continuing roll-out of Marlboro Lights and the Region's launch of Marlboro Ultralights. L&M and Chesterfield will each contribute approximately 10%, Congress 8%, Merit 7% and Philip Morris 5%.

In total, our premium product introductions will account for 76%, mid priced products 13% and value brands 11%.

<u>Premium products</u> - In addition to Marlboro, our premium product introductions over the Plan period will focus on Chesterfield, Merit and Philip Morris. Chesterfield is planned for Switzerland and the Nordic markets. For Switzerland, we will use a dual launch of Chesterfield and Chesterfield Mild, to further contest the Camel franchise, where Camel Mild is still growing in market share. In Sweden, Chesterfield Box will be priced at the lower end of the premium range to fight for the consumers who would otherwise choose Prince Box. Chesterfield 100s Soft will be launched in Turkey by the joint venture in 1992, and will be parity priced with Camel; it is being launched into the duty free segment to begin creating consumer awareness and interest.

In 1990, Merit will join Marlboro Red and Marlboro Lights under local manufacture in Egypt, where the brand held 4% share of the international segment before imports of cigarettes ceased. In Switzerland, the Ultra line extension will be introduced to add further momentum to the Merit parent. We intend to exploit Merit De Nic heavily in the Region, in particular the GCC and Switzerland; in 1992, Merit De Nic is expected to account for 12% of the total Merit family volume.

For Philip Morris, we are planning to introduce Philip Morris Lights in Sweden in 1990, followed by Philip Morris Superlights in 1991. PMSL will be launched in Finland in 1992. For Switzerland, we will line extend with PM Ultra Lights 100s in 1991 and launch PM Lights in 1992.

Also in Switzerland, our Mild and Ultra launches for the Muratti family will be priced at parity with Marlboro, to reinforce the international connotations of these new Muratti offerings. Both will use the concentric filter.

In addition, we will be evaluating Parliament for the Arab consumer with a test market in Kuwait in 1990 and a full launch in that market in 1991. Parliament Lights will be launched in Turkey duty free in 1990.

Mega is an innovative cigarette using the Paradox concept, a King Size product with a short tobacco rod and a concentric filter. It will be launched in Norway in early 1990, with targeted duty free availability to help build consumer awareness.

<u>Mid price brands</u> - In Finland, we will launch in 1991 the Menthol version of our successful Belmont 2002, to further capitalize on the growth of the Belmont franchise and the growing preference of Finnish consumers for menthol products. We will also be launching Belmont as a secondary brand in Sweden in late 1990, to contest the still growing Blend franchise.

L&M Box will be launched in East Germany under license as rapidly as possible. Its hard currency requirements will be satisfied through hard currency savings engineered for certain key local brands and so enable us to enter the domestic soft currency market; the launch is budgeted for 1991.

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L&M will also be supported in Yugoslavia duty free with a full launch in 1990 and so improve our ability to contest the growing demand for mid-priced German brands. Similarly, we will be supporting Eve, Mercedes and Diana to appeal to the female smoker.

We will introduce the L&M parent in Iraq in 1990, positioning it in the upper range of the mid price segment, and will continue our roll-out of L&M Lights in the GCC, introducing it into Oman and UAE Duty Free, also in 1990.

Value brands - We will launch Congress in Niger, Liberia and Guinea Bissau in 1990 and in Mali in 1991. The brand is already available in Benin, Togo and Guinea and will generate 390 million units in 1989. We will use it selectively in the Middle East, launching it immediately in Kuwait to capture price sensitive smokers, and in Afghanistan.

Bond Street Box will be launched as a Virginia product in 1990 in Benin, Niger, Togo and Burkina Faso. It will be targeted against lower priced competitive offerings, in particular Rothmans' brands.

DUTY FREE

Our traditional duty free activity remains an important part of the Region's business. With 3.3 billion units in 1990, it represents 6% of our unit volume and 11% of our marginal contribution. Turkey represents 60% of this business, with Scandinavia/Finland and Switzerland, together, accounting for 25%. We will continue to seek the highest possible price increases in order to maximize our profit growth in this highly lucrative business.

Securing better relationships with our customers is an integral part of our strategy; further development of our key accounts program figures prominently in each of our duty free areas. We will conduct impactful promotional and merchandising activities to maximize our sales, as well as to demonstrate the benefits of such programs to our customers, in order to secure their greater support. Effective training of our staff and those of selected key accounts will be used. We will seek synergies with activities in relevant domestic markets, and with other Regions, in particular the EEC.

We will also work closely with the EEC Region to drive the relevant duty free trade associations to ensure that any post-1992 ban on intra-EEC duty free sales does not spread into neighboring markets. Indeed, our near term objective is to raise the duty free allowance for cigarettes, where possible.

Although outside the traditional duty free business, our hard currency business in Eastern Europe is becoming increasingly important to the Region. It will provide $37.8 million in marginal contribution in 1990, growing to $ 50.2 million in 1992.

DISTRIBUTION AND SALESFORCE PERFORMANCE

We will continue to build our merchandizing strength, broaden our customer relationships and optimize product flow. The trend in our markets is to become more involved in the downstream activities, with the objectives to broaden product availability at retail, to reduce OOS, to support new brand launches, and so to build our competitive advantage. The general move towards greater marketing restrictions underlines the importance of successfully achieving these objectives.

We will continue to use the traditional means of high impact permanent POS displays and focusing our merchandising resources on direct consumer contact via sampling, switch selling and consumer promotions. In addition, we will further exploit promotional activities which also provide incentives to the

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salesforce and to the trade. A key element of this program is to gain the support of our distributors, where training assistance is also becoming increasingly important. This has helped our relationships with certain customers, as in Kuwait, Saudi Arabia and Norway. Indeed, we will leverage the distribution study currently underway with Tekel, to further improve our distribution and our customer relationship in the Region's most important market. We will continue to refine and adapt the important inland distribution function which we manage in Turkey, both to better our export-based business and to prepare a solid foundation for distribution under local manufacture. The expertise gained in supporting the hard currency business in Yugoslavia will be used to expedite the development of our networks in the expanding hard currency sectors elsewhere in Eastern Europe.

In certain cases, it is a matter of basic education to inform the trade about the superior profitability of cigarettes. We are using Direct Product Profitability (DPP) exercises to secure greater support for cigarettes, in particular our products, and to help diffuse any trade initiatives to gain yet higher margins.

Where the business warrants, we will continue to seek additional salesmen and better supervisory capabilities, as in the GCC. In Eastern Europe, we will pursue tailored merchandising programs with our important customers and depending on the evolution of the business, we will consider increasing our in-market resources. We plan for additional merchandisers/promoters to exploit the lucrative Nordic duty free business on ferries and to further build our penetration of the Swedish market, which is becoming a significant business for us. We are also planning to evaluate the situation in Finland, and will resolve any requirements with our partner Amer Tupakka.

In Sweden we are seriously considering a shift in distributors from STA to another third party to ensure greater control over our product flow. This is planned for 1991.

Our global objective on the logistics side is to optimize and regularize the order/production/ delivery/consumer off-take cycle. In addition to improving the sales side of our business, we will improve the supply side and accelerate the collection of receivables. For example, the recently implemented system in Yugoslavia will reduce our payment cycle by one month. Key markets in addition to Eastern Europe include Turkey, the GCC and all markets using Brazilian production. Our Operations/Customer Services/ICS departments are currently finalizing the Concept of Integrated Materials Planning System (CIRP) to facilitate this.

PRODUCT COSTS AND SOURCING

Product quality superior to competition will continue to receive ongoing active attention. In addition, gaining further efficiencies and subsequent savings in purchasing, blending and manufacturing are key objectives for the Region. At FTR, we have demanding targets set to achieve continuing improvements in factory yield, make/pack efficiency, productivity and cigarette rejects, while further reducing the quality penalty points. In addition to implementing project Park, we will complete our primary optimization program to obtain greater filling power, less tobacco degradation, improved taste uniformity, and reduced labor requirements. Product and blend standardization is key in FTR and with our licensees, in Finland, Eastern Europe and Africa. Technical assistance to our licensees is also critical in terms of optimizing current production and in developing our competitive advantage over the other major international companies. In many markets, this includes seeking means to generate hard currency savings for our licensees, to our mutual benefit.

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With the evolution of our participation in the mid and low price categories, we plan to evaluate closely our product and production requirements for exports in order to achieve savings and to at least match our major competitors on a cost basis.

For Sweden, we will pursue our goal to have all new products and important products already on the market qualify for tax class I treatment. Given the tiered specific tax structure, this represents incremental revenue of SEK 70/000, equal to $10.45/000. The 1990 launch of Philip Morris Lights as a tax class I product will be used as a precursor to our conversion of Marlboro Lights from tax class II to tax class I, forecast for mid-1991.

In addition, we will explore all opportunities related to the FML technology, in particular to exploit the hard currency savings aspect to support our cigarette sales. Our emphasis will be the USSR, Eastern Europe and North Africa. Tests using the FML filter are already underway in the DDR.

CORPORATE AFFAIRS

Our objective remains to develop and mobilize the necessary resources - internal PM, external agencies and consultants, the industry NMAs, and all potential allies - to fight the social and legislative initiatives against tobacco. We are realizing some significant successes in our corporate affairs program - the delay in the GCC duty hike, the defeat of the tax-driven 20% retail price increase in Finland, the repeal of "Smart Promotions" in Sweden, the growing ASFC/Customs authority alliance with respect to pricing and taxation in Switzerland, recognition and commitment from the Turkish authorities to revise the taxation system for cigarettes, wider recognition and acceptance of our ETS message, especially in the Nordic markets, the change in printed deliveries of Barclay, and the acceptance of sampling tolerances for cigarette testing in the GCC - to name some key examples. Another major development is our emerging success in nurturing smokers' rights groups, and supporting initiatives that generate wide and favorable media coverage. The development of the smokers' clubs in the Nordic markets represents a major breakthrough in these traditionally paternalistic societies.

The establishment of the communications program this year in the Nordic countries will be extended, as will our spokesperson training programs. The government relations program and lobbying strategies used to defeat the tax initiative in Finland and to defer the duty hike in the GCC will be used as a model to attain our legislative and regulatory objectives in all priority markets.

Some specific targets for the future include:

1. Continue to foster the delay in the duty hike in the GCC, the adoption of the Saudi-type high minimum specific duty, the conversion to a fully specific structure, and the defeat of any future initiatives to increase tax incidence.

2. Avert higher tax incidence in the Nordic markets generally; strive to effect a change in the tax structure in Finland from wholly ad valorem to predominantly specific and seek to equalize cigarette and RYO tax burdens in Norway; ensure that tobacco remains in the Consumer Price Index (CPI).

3. Continue to work closely with the authorities in Turkey to rationalize the tax regime for cigarettes, with the shift towards a higher specific to total tax ratio a key component, and to ensure that leaf imports will not be subject to protectionist duties. Strive to reverse the

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provision for the partial non-deductibility of advertising expenditures under the Turkish corporate tax law.

4. In Switzerland, continue to work within the ASFC/Customs authority alliance to ensure a favorable progression of retail prices and tax burdens. Within the ASFC/FIST forum, finalize the new trade agreement.

5. Use our advisory assistance on taxation in the Yugoslavia domestic and hard currency sectors as a model to influence the evolution of the cigarette business elsewhere in Eastern Europe.

6. Continue efforts to achieve market access via non-discriminatory taxation in Nigeria and selected West & Central African markets.

7. Further develop our program to activate support for smokers' rights and exploit this support on key, selected issues; broaden the involvement of high profile opinion leaders. Concentrate on the Nordic markets and roll-out the program to Switzerland and eventually Turkey. Seek means to communicate with Arab consumers and to establish a forum for smokers' rights. Conduct the first global Smokers' Club Congress, in Helsinki in 1990.

8. Link our smokers' rights programs with well-targeted PR campaigns to counter misinformation and bias, in particular in the Nordic markets; extend the program to Switzerland, Turkey and the GCC. Develop an activists' program for the retail trade, implementing the "Tobacco Alliance" program in Sweden as the prototype. Ultimately, diffuse spurious argumentation and misinformation campaigns used by the WHO.

9. Continue to develop our Nordic ETS/Healthy Buildings programs and extend through the Region, as appropriate. Shift the focus to in-door air quality and continue to support courtesy and tolerance campaigns.

10. Fight advertising bans and increased marketing restrictions in all our important markets. In particular, avert advertising ban proposals in Turkey and Switzerland, contain the impact of the far reaching Magnusson Commission in Sweden, and reopen the debate on Bill 27 in Norway. Preserve the freedom to sponsor international sport events and individuals.

11. Avert further reductions in the maximum constituent levels in Finland and the GCC, or their introduction elsewhere. Prevent any legislation concerning ingredients and additives. Continue to influence the draft standards for cigarettes in the GCC, and prevent the adoption of the Saudi date coding standard in the other markets.

12. Prevent the spread of unacceptable health warning labeling. Ensure appropriate attribution and where justified, invoke legal action. Prepare argumentation and lobbying initiatives for Eastern Europe.

13. Closely monitor all events related to the "1992" program for a Single European Market, in order to preempt and exploit any potential impact in EEMA markets, e.g; advertising restrictions, a duty free ban, and tax structure changes. Work closely with the EEC region, and participate in all appropriate industry forums.

14. Broaden PM's active participation in NMAs where PM membership has not yet been established, in particular Finland, and in general, strengthen the pro-tobacco activism of industry groups. Develop the recently formed Importers Working Group - Turkey, and prepare for its necessary evolution to include Tekel. Monitor the development of such forums in Eastern Europe, and prepare to participate.

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MANAGEMENT INFORMATION SYSTEMS

FTR will migrate its computer operations to the European Data Center in the second quarter of 1990. Both FTR and HQ shall strive to benefit from this opportunity of larger scale computing.

We will aim for a greater commonality in our European applications, and will implement the final recommendations of the Index Group. The main opportunities for common systems, identified by Index, are in the areas of Manufacturing, Sales and Marketing, Executive Information Systems, and Finance.

In the manufacturing area, we will focus our resources on production planning. The CIRP system will be fully implemented and linked to FTR's Materials Requirement Planning. We shall coordinate with PMI and PM USA MIS, to ensure that it will be integrated with the US export production planning system.

In the sales and distribution area, sales force systems will be developed for Sweden and Turkey. They will provide excellent opportunities for common European systems development. Other initiatives include Key Accounts Management and DPP.

In close cooperation with PMI MIS, we shall further develop the Executive Information System (EIS) implemented in 1989.

Based on the European strategy, we will implement Systems Application Programs (SAP) in the finance area both at FTR and HQ, where replacement of outdated systems is required. The main SAP application to be implemented is the General Ledger. Our financial reporting and budgeting and LRP applications are outdated and need to be replaced. They will be fully integrated with the General Ledger and other financial sub-systems, as well as with the EIS.

ASSISTANCE FROM PMI

To help meet the Plan's objectives, the Region seeks specific PMI assistance in the following areas.

1. Resources and assistance in implementing the Turkey project.

2. Support for corporate affairs, particularly with regard to the primary issue, maximum constituent limits, and juvenile smoking; and provide guidance in dealing with international organizations.

3. Cooperation in organizing the first global Smokers' Club Congress, in Helsinki in 1990.

4. Cost reduction of minor export brands manufactured in small runs in the US, for example, L&M Red for Saudi Arabia; and effective coordination of production requirements forecasting.

5. Pressure the US and the EEC Leaf Departments to absorb additional quantities of Eastern European countertrade tobacco of acceptable quality at a realistic cost.

6. Support for FML technology.

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TURKEY

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B1. **TURKEY OBJECTIVES**

		LE 1989	OB 1990	1991	1992	%CAG LE1989 -1992
Unit Volume	(mio)	11,485	12,645	14,077	15,242	9.9%
Income from Operations	($mio)	$87.5	$105.1	$115.7	$129.1	13.8%
Market Share	(%)	13.3%	14.4%	15.5%	16.4%	+3.1pts
Total Market Size	(bio)	71.5	73.0	76.0	78.5	3.2%

MARKET OVERVIEW

The total market, which fell slightly in 1988 has grown 4% this year to reach 71.5 billion units. This cyclicality has been driven by movements in real price and consumer disposable income, which have produced pronounced swings in demand for international brands. Impacted by a series of real price increases, coupled with declining consumer purchasing power, the international segment lost nearly 1 billion units in 1988. With the reverse in play for 1989, the actual decline in real prices and the boost to salaries will enable the international segment to jump 13% to 11.1 billion units. As Marlboro is more price sensitive than Parliament, it is our Marlboro Red volumes which dip and surge in response to real price movements. In 1989, Marlboro Red will reach 10% market share; PM, in total, will capture 13.3% of the market and 85.6% of the international segment. Our expectation is for the international segment to grow at a rate of 10.2% per year over the Plan period, and for the PM segment share to rise from 86.1% in 1990 to 86.5% in 1992.

Within this segment we expect moderate but consistent growth for LTN products, with the penetration of Marlboro Lights, the wider availability of Barclay, and the recent launch of Camel Lights.

Within the domestic segment, the major development has been Tekel's introduction of a mid-priced blended product, Tekel 2000, which is subsidized. Tekel's continuing investment to achieve a solid market position for Tekel 2000 is assured with production capacity slated to reach 3 billion units in 1990.

The Plan assumes that international brands will be obliged to switch from importation to local manufacture. The ultimate timing will depend on the successful resolution of a number of operating conditions deemed as pre-requisites by the international investors. The timing of RJR's and BAT's move to local joint ventures may be retarded somewhat by the ramifications of their take-over activities. At this juncture, we envisage PM signing a detailed letter of intent by March 1990 and start-up for our local project during 1991.

Anti-tobacco initiatives based on alleged health grounds have begun to emerge in Turkey. These include a reduction in the deductability of tobacco advertising for corporate tax purposes, as well as a proposal to ban tobacco advertising altogether. Smoking restrictions are also emerging. A local chapter of the International Advertising Association was established in October and the Importers Working Group-Turkey was formed in September to help defeat such initiatives.

On the positive side, some municipalities have actually relaxed restrictions on outdoor signage and the THY Airlines is in the process of reversing an earlier ban on domestic in-flight smoking.

ISSUES, OBJECTIVES AND ACTIONS

MARLBORO - Our product objectives are to develop and grow the Marlboro Red dominance of the international segment, along with Marlboro Lights' dominance within the LTN subsegment. We will continue to use superior, more-impactful communications to the consumer, in advertising with spot color, POSM, promotions and outdoor signage, and continue to dominate the market. RJR is our most aggressive competitor, with over 180 shop facias and 20 wall sites, versus our 917 Marlboro shop facias and 86 Marlboro wall sites. We are finalizing our second generation shop facia program, which we will begin rolling out selectively in the market next year, with an improved overhead light box. This will be completed by 1992. We will continue our highly successful Summer Beach Promotion, and to dilute Camel Trophy's impact, we will expand below the line activities, emphasizing promotions, with the introduction of the ML Adventure Team. We are also developing a football magazine concept to capitalize on the 1990 Soccer World Cup. Targeted switchselling campaigns will continue to be used in retail outlets and TGMPs against competitive offerings, including Tekel 2000.

For Marlboro Lights, we will upgrade the advertising support in print media by utilizing full color subjects in dailies beginning in 1990, and innovative placement in all media. We will use selective indoor sites in high profile centers to connote the sophistication and prestige of the product. To further improve distribution, we will run a trade promotion in which each retailer must commit to and meet an agreed sales target in order to qualify for the grand prize drawing. Systematic sampling and switchselling aimed principally at Barclay and Camel Lights will be extended.

PARLIAMENT - Increased emphasis will be given to mass communication media (newspapers), especially in the early Plan years to build brand image. We will improve the current wall program by implementing brand image applications at key sites. We will extend our new generation of high quality shop fronts, which raise the status of Parliament and enable us to receive exclusivity for shop decoration. We will further develop inside shop decoration and merchandising by introducing unique Parliament shelving units which will increase branding visibility. We will develop existing and new jazz and fashion promotions, as well as new themes to effect a greater balance in the female/male audience interest, where tennis and the performing arts are candidates. A Parliament fashion line is also under consideration.

PRODUCT AVAILABILITY - Today, retail availability of Marlboro Red is at 98%, Marlboro Lights at 80% and Parliament at 95%. Our long term objective is to reach retail availability of 100% for Marlboro Red and Parliament and 95% for Marlboro Lights. Outside Istanbul, we direct approximately 90% of our product deliveries, due to our fully integrated inland transportation arrangement. This allows us to regularize the stock situation and to take immediate corrective action when necessary. We have established relationships with Tekel warehouse personnel, which allow us timely access to data. The warehouses function as sales depots to individual retailers as there is no wholesale trade for cigarettes in Turkey. We plan to expand our forecasting system to cover the entire warehouse network to fully optimize our inland transportation. Due to low volumes, own inland transportation is not a feasible option for the other manufacturers and thus gives us a tremendous competitive advantage.

We also plan to improve the professionalism of the salesforce and sales management through training and the implementation of a key accounts program, where 7-Eleven is the first. Over 100 shops are expected to open in Turkey by 1992. We will establish exclusive arrangements for consumer promotions, secure prime space for our brands, assist in shelf

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merchandising, and provide PM/7-Eleven modular overhead merchandisers (supplied by PM USA). We will undertake a similar program with Metro, once their plans for Turkey are finalized. Our overall key accounts program also deals with special accounts like the Military, Factory Cooperatives and State Institutions. We will ensure overall salesforce market coverage of at least 80% of sales.

PRICING - At present, our retail prices are driven by the Turkish Lira/US dollar exchange rate. With depreciation of the Lira raising the Lira cost of our products to Tekel, their margin is squeezed, generating pressure to raise the retail price. In addition, our high unit volumes could invite the Turks to impose an arbitrary tax-driven price increase in order to constrain hard currency outflow.

Depending on the moves in inflation and consumer purchasing power, a retail price increase can have a significant and immediate impact on demand, far out-weighing the inherent growth of our brands. Further, our brands carry a retail price premium over most of the competition. For example, today, Marlboro and Parliament, along with Barclay retail at TRL 2600 per pack versus TRL 2300 for Camel, TRL 2000 for Tekel 2000, and TRL 800 for Maltepe KS. As such, our objective is to pursue a pricing strategy which maximizes our volume without inviting retaliation in arbitrary retail price hikes, and thus, to maximize our profitability.

The Plan assumes a $1.10/000 increase in our net FAS price to $20.20/000 in April 1990, and to $21.00/000 in 1992.

As of the start-up of the local venture in mid-1991, there will be pricing freedom. PM will control the importation of our products, in terms of shipments and the payment of receivables via the envisaged joint venture.

TAXATION - The present duty and excise tax system is extremely inefficient and complex, and discriminates against products made with tobacco imports. The authorities have recognized the difficulties and have agreed to make changes. We have made representations and provided documentation both to demonstrate that overtaxation of the imported segment has already reduced government revenues; and to propose a new system for both imported and locally manufactured cigarettes. This new system provides for an ad valorem tax on the ex-factory price plus a two-tier specific system, a lower level for 100% Oriental products and a higher one for all others. The proposal recommends no import duty on leaf. Tekel and the Ministry of Finance have studied our input and are finalizing their own proposal, which they promise to review with us prior to submission to the Council of Ministers. The duty on imported tobacco is likely to be the most contentious issue in view of the authorities' desire to promote the local growing of bright tobaccos.

DUTY FREE - Our objectives are to maximize our share of the duty free business and to leverage the price differential between duty free and domestic in order to maximize our overall profit.

Parliament Lights will be launched in 1990 as a vanguard for a future Parliament line extension in the domestic market. Chesterfield full flavor will also be launched in 1990, as part of our campaign to generate domestic consumer demand for the product.

We will continue to build up our market intelligence. Our fieldforce will be expanded and undergo extensive training. We are reviewing the fieldforce's call mission and coverage program. We are paying particular attention to ensure coverage of the land border shops in Eastern Turkey. We shall put in place a program to enhance relationships with our customers and a key account management program will be introduced. Trade seminars and shop personnel training programs will be implemented.

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PROJECT KISS - We will form a joint venture owned 15% by Tekel, 20% by Sabanci, and 65% by PM. Our Plan assumes that the joint venture will take over the present Maltepe factory owned by Tekel in Istanbul. Tekel's investment will be in-kind. The joint venture will take commercial control of the Maltepe brand, paying a royalty to Tekel. In total, Maltepe's unit volume is 37 billion units, which represents 50% of the total market. Maltepe's total volume cannot be accommodated immediately within the Maltepe factory, and the surplus above 25 billion will be contracted out during the early years. We will upgrade and expand the existing Oriental primary and install faster secondary equipment to cope with the total Maltepe volume. One major concern for us relates to the potential social issue arising from the current excess employment.

We will commence manufacture of international brands from imported cut filler at the Maltepe factory as rapidly as possible, and will produce 2.2 billion units in 1991 and 6.1 billion units in 1992. This is the maximum capacity that the factory will be able to handle in the short term. We will build a new facility within the factory comprising a new primary and secondary operation for blended products to produce 20 billion units. It will take until 1995 before we shall be able to manufacture all our products locally.

We have made concrete progress concerning the negotiations for our pre-conditions.

- The requirements for total pricing freedom, the retention of the excise tax float, and maintenance of transitional imports by the joint venture during the build-up of local production capacity have been accepted.

- The need to redress the duty and excise tax regimes has been fully recognized. A comprehensive proposal is being finalized by the Ministry of Finance, and we have been promised the opportunity to provide comments prior to its submission to the Council of Ministers.

- Tekel has agreed to undertake distribution on a cost-plus basis and a joint team is working to determine an accurate cost base, as well as to recommend improvements in current distribution practices.

- The principle of acquiring the Maltepe facility, together with a long-term exclusive license for the Maltepe brands, has been accepted, as has our proposed shareholding split with full management control for PM.

- The Minister of Finance has acknowledged the need to resolve the overemployment issue within the Maltepe facility, prior to our taking control.

The final issues to be resolved relate to royalty rates and to the valuation of the Maltepe site.

For PM trademarks, our proposed royalties of 6.5% of the net ex-factory price with an indexed minimum of $1.50/000 for Marlboro and a ten year term has been tentatively agreed. With respect to Maltepe, the Turks seek a 7.0% royalty rate, equivalent to $0.46/000 at today's prices and a fifteen year term, while our final position is for 6.0% ($0.39/000) and a twenty year term. Thus, we diverge by only five years on the question of term and by $0.07/000, or $2.6 million at current annual volumes, on the royalty.

The appraisal of the Maltepe facility covering the land, building and equipment remains a contentious issue. Here, the Tekel and PM positions diverge by $65 million, their $77.1 million demand versus our $12.1 million offer. Although a number of items require debate, the main item is the land valuation; we treat the land as part of an ongoing industrial activity,

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whereas Tekel assesses the value based on its alternative usage as residential property. Having received their detailed estimates, we will now analyze the assumptions in preparation for a negotiation of the site's value with Tekel and the Foreign Investment Department before yearend. We are considering a lease, to an outright purchase.

Should we consumate the deal, PM will control the largest factory in Europe, and by securing the Maltepe business, we will have a built-in safeguard for our investment, should there be hard currency shortages.

Organization - The marketing and administrative function will be retained in Istanbul but will be transferred to the new joint venture once this is established, and will be fully integrated into the new organization. We will expand our field force over the Plan period. The emphasis is to substantially bolster our merchandising capability. Priority will be placed on training and development.

The organizational plan for the joint venture project team has been established. The manning of the project team, including the project manager, will be a vital ingredient.

For Plan purposes, the venture begins to absorb direct marketing and overhead expenses in 1991. EPSAS, our fieldforce operation, will be totally absorbed by the local venture as of 1992.

With respect to Marlboro manufactured locally, we recognize the royalty and the income from sales of leaf and materials. No dividends from the local venture are included, nor are our commercial activities involving Maltepe, except as a component of our Upside to 1992 Income from Operations.

TURKEY

MAJOR UPSIDE/DOWNSIDE TO 1992 INCOME

UPSIDE

The premium segment of the market grows more rapidly enabling Marlboro to add an additional 500 million units, which will be export volume. Furthermore, we receive $7 million in dividends from the joint venture related primarily to the Maltepe license.

DOWNSIDE

The 1992 FAS price of $0.80 is not achieved, the government instead forcing up the taxation so that retail prices and, therefore, volumes stay as in the Base Case.

		1992 DOWN	1992 BASE	1992 UP
Total PM Volume	(mio)	15242	15242	15742
Available profit	($ mio)	$132.0	$137.4	$148.9
Variance from Base	($ mio)	($5.4)		+$11.5

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Schedule M-1

TURKEY TOTAL - INCOME STATEMENT

(US $ 000)

	LE 1989	OB 1990	1991	1992	CAG % LE89-92
UNIT VOLUME (millions)	11,485	12,645	14,077	15,242	9.9%
of which					
Exports	11,485	12,645	11,837	9,122	-7.4%
Local production	-	-	2,240	6,120	N/A
TOTAL OPERATING REVENUES	$233,900	$271,660	$290,053	$293,909	7.9%
Standard variable cost	97,200	111,947	121,092	123,345	8.3%
Standard cost deviations	2,400	5,216	5,294	4,887	26.7%
LIFO Adjustment	800	632	683	707	-4.0%
MARGINAL CONTRIBUTION	$133,500	$153,864	$162,984	$164,970	7.3%
Advertising	9,100	9,720	8,980	7,060	-8.1%
Sales and promotional allowances	-	-	-	-	N/A
NET CONTRIBUTION	$124,400	$144,144	$154,004	$157,910	8.3%
Local overheads	5,400	6,205	5,522	833	-46.4%
Other indirect marketing	3,300	702	309	273	-56.4%
NET CONTROLLABLE MARGIN	$115,700	$137,237	$148,173	$156,803	10.7%
Fixed manufacturing expenses	28,200	32,174	32,479	27,648	-0.7%
General & administrative	-	5	5	74	N/A
INCOME FROM OPERATIONS	$87,500	$105,057	$115,689	$129,082	13.8%
Local Inflation Rate	75%	60%	50%	45%	
Exchange Rate USD=TRL	2,095	2,810	2,810	2,810	

Note:

Advertising and indirect marketing expenses are allocated between the export and license business on the basis of unit volume; license-related expenses are absorbed by the local venture. By 1992, the local venture absorbs all field force costs.

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Schedule M-1A

TURKEY TOTAL - INCOME STATEMENT

(US $ per thousand)

	LE 1989	OB 1990	1991	1992	CAG % LE89-92
UNIT VOLUME (millions)	11,485	12,645	14,077	15,242	9.9%
of which					
Exports	11,485	12,645	11,837	9,122	-7.4%
Local production	-	-	2,240	6,120	N/A
TOTAL OPERATING REVENUES	$20.37	$21.48	$20.60	$19.28	-1.8%
Standard variable cost	8.46	8.85	8.60	8.09	-1.5%
Standard cost deviations	0.21	0.41	0.38	0.32	15.3%
LIFO Adjustment	0.07	0.05	0.05	0.05	-12.7%
MARGINAL CONTRIBUTION	$11.62	$12.17	$11.58	$10.82	-2.4%
Advertising	0.79	0.77	0.64	0.46	-16.4%
Sales and promotional allowances	-	-	-	-	N/A
NET CONTRIBUTION	$10.83	$11.40	$10.94	$10.36	-1.5%
Local overheads	0.47	0.49	0.39	0.05	-51.2%
Other indirect marketing	0.29	0.06	0.02	0.02	-60.3%
NET CONTROLLABLE MARGIN	$10.07	$10.85	$10.53	$10.29	0.7%
Fixed manufacturing expenses	2.46	2.54	2.31	1.81	-9.6%
General & administrative	-	0.00	0.00	0.00	N/A
INCOME FROM OPERATIONS	$7.62	$8.31	$8.22	$8.47	3.6%
Local Inflation Rate	75%	60%	50%	45%	
Exchange Rate USD=TRL	2,095	2,810	2,810	2,810	

Note:

Advertising and indirect marketing expenses are allocated between the export and license business on the basis of unit volume; license-related expenses are absorbed by the local venture. By 1992, the local venture absorbs all field force costs.

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TURKEY

COMPARISON WITH LAST YEARS PLAN

(US$ millions)

	1990-1992 Three Year Plan			Last Year's Plan			Fav./(Unfav.)		
	1989 LE	1990 OB	1991	1989	1990	1991	1989	1990	1991
UNIT VOLUME (millions)	11,485	12,645	14,077	11,570	12,905	14,070	(85)	(260)	7
TOTAL OPERATING REVENUES	$233.9	$271.7	$290.1	$237.9	$252.6	$246.7	($4.0)	$19.1	$43.4
MARGINAL CONTRIBUTION	133.5	153.9	163.0	136.5	142.4	134.8	(3.0)	11.5	28.2
F.M.E.	28.2	32.2	32.5	26.0	25.2	20.4	(2.2)	(7.0)	(12.1)
Direct Marketing	9.1	9.7	9.0	8.9	8.4	3.4	(0.2)	(1.3)	(5.6)
Indirect Marketing	8.7	6.9	5.8	7.0	5.9	0.8	(1.7)	(1.0)	(5.0)
G & A	-	-	-	-	0.3	0.4	-	0.3	0.4
Total Expenses	46.0	48.8	47.3	41.9	39.8	25.0	(4.1)	(9.0)	(22.3)
INCOME FROM OPERATIONS	$87.5	$105.1	$115.7	$94.6	$102.6	$109.8	($7.1)	$2.5	$5.9

TURKEY: SUMMARY OF 1986, 1987, 1988 AND 1989 PLANS

Market Share (%)	1986	1987	1988	1989	1990	1991	1992	Plan Period Growth
1987 Plan	7.0	11.0	12.1	13.0	-	-	-	6.0 pts
1988 Plan	-	12.2	15.9	17.4	18.8	-	-	6.6
1989 Plan	-	-	13.0	14.1	15.3	16.3	-	3.3
1990 Plan	-	-	-	13.3 LE	14.4	15.5	16.4	3.1
Actual	9.4	13.9	12.3	13.3 LE				
PM Unit Volume (millions)								
1987 Plan	5,680	8,805	9,860	10,915	-	-	-	24.3 %
1988 Plan	-	9,509	12,640	14,106	15,605	-	-	18.0
1989 Plan	-	-	10,460	11,570	12,905	14,070	-	10.4
1990 Plan	-	-	-	11,485 LE	12,645	14,077	15,242	9.9
Actual	7,730	10,763	10,138	11,485 LE				
Income from Operations ($ millions)								
1987 Plan	35.0	65.3	86.4	92.7	-	-	-	38.4 %
1988 Plan	-	67.0	89.0	102.8	109.1	-	-	17.6
1989 Plan	-	-	74.1	94.6	102.6	109.8	-	14.0
1990 Plan	-	-	-	87.5 LE	105.1	115.7	129.1	13.8
Actual	51.7	76.1	71.4	87.5 LE				

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Schedule M-3

Turkey Competitor Profile

1a. Market Share

(%)

COMPANY	1987	1988	LE 1989	OB 1990	1991	1992
Philip Morris	13.9%	12.3%	13.3%	14.4%	15.5%	16.4%
BAT	0.3%	0.3%	0.4%	0.5%	0.5%	0.6%
RJ Reynolds	0.8%	1.1%	1.1%	1.2%	1.3%	1.4%
Rothmans	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%
Other Internationals	0.5%	0.5%	0.5%	0.5%	0.5%	0.4%
Tekel	84.3%	85.7%	84.5%	83.3%	82.0%	81.1%
Total Market	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

1b. International Segment Share

(%)

COMPANY	1987	1988	LE 1989	OB 1990	1991	1992
Philip Morris	88.6%	85.8%	85.6%	86.1%	86.4%	86.5%
BAT	1.8%	1.8%	2.5%	2.7%	2.8%	3.0%
RJ Reynolds	5.2%	7.5%	7.2%	7.1%	7.3%	7.3%
Rothmans	1.2%	1.4%	1.2%	0.9%	0.8%	0.7%
Other Internationals	3.2%	3.5%	3.5%	3.2%	2.7%	2.4%
Total segment	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
International as % of market	15.7%	14.3%	15.5%	16.7%	18.0%	18.9%

2. Domestic Unit Volume

(in millions of units)

COMPANY	1987	1988	LE 1989	OB 1990	1991	1992
Philip Morris	9,572	8,428	9,500	10,500	11,800	12,850
BAT	197	180	276	330	380	450
RJ Reynolds	561	736	802	870	990	1,090
Rothmans	127	137	134	110	110	110
Other Internationals	344	344	388	390	370	350
Total Internationals	10,800	9,825	11,100	12,200	13,650	14,850
Tekel	58,200	58,934	60,400	60,800	62,350	63,650
Total Market	69,000	68,759	71,500	73,000	76,000	78,500

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Schedule M-4

TURKEY- BRAND MIX

	UNIT VOLUME - SHIPMENTS (MIO)				CAG	PM MARKET SHARE				CHANGE
	1989 LE	1990 OB	1991	1992	89-92	1989 LE	1990 OB	1991	1992	89-92
TOTAL DOMESTIC										
MARLBORO RED 100 SOFT	7,140	7,700	8,500	9,090	8.4%	10.0%	10.5%	11.2%	11.6%	1.6%
MARLBORO LIGHTS 100 SOFT	250	500	720	870	51.5%	0.3%	0.7%	0.9%	1.1%	0.8%
TOTAL MARLBORO	7,390	8,200	9,220	9,960	10.5%	10.3%	11.2%	12.1%	12.7%	2.4%
PARLIAMENT 100 SOFT	2,110	2,300	2,580	2,770	9.5%	3.0%	3.2%	3.4%	3.5%	0.6%
CHESTERFIELD SOFT	-	-	-	120	NA	0.0%	0.0%	0.0%	0.2%	0.2%
TOTAL PM DOMESTIC	9,500	10,500	11,800	12,850	10.6%	13.3%	14.4%	15.5%	16.4%	3.1%
TOTAL MARKET	71,500	73,000	76,000	78,500	3.2%	100.0%	100.0%	100.0%	100.0%	0.0%
DUTY FREE	1,875	2,000	2,120	2,220	5.8%					
TURKISH CYPRUS	110	145	157	172	16.1%					
TOTAL PM	11,485	12,645	14,077	15,242	9.9%					

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Schedule M-4a

TURKEY- BRAND MIX

	UNIT VOLUME - SHIPMENTS (MIO)				CAG
	1989 LE	1990 OB	1991	1992	89-92
EXPORTS					
MARLBORO RED 100 SOFT	7,140	7,700	6,260	3,090	-24.4%
MARLBORO LIGHTS 100 SOFT	250	500	720	870	51.5%
TOTAL MARLBORO	7,390	8,200	6,980	3,960	-18.8%
PARLIAMENT 100 SOFT	2,110	2,300	2,580	2,770	9.5%
TOTAL PM EXPORTS	9,500	10,500	9,560	6,730	-10.9%
LICENSE					
MARLBORO RED 100 SOFT	-	-	2,240	6,000	N/A
CHESTERFIELD SOFT	-	-	-	120	N/A
TOTAL PM LICENSE	-	-	2,240	6,120	N/A

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Turkey Retail Price Increases

Marlboro Red Soft 100's (TL per 000)	Base Price (12/31/89)	Increases 1990	1991	1992	Ending Price (12/31/92)
Manufacturer	43,930	21,215	25,755	43,500	134,400
Insurance & Freight	1,840	740	1,020	1,520	5,120
Taxes	72,981	38,072	52,245	73,782	237,080
Distribution\Trade	11,249	9,973	7,480	10,698	39,400
Total Price Increase	-	70,000	86,500	129,500	
Ending Retail Price :					
TL per 000	130,000	200,000	286,500	416,000	416,000
TL per pack	2,600	4,000	5,730	8,320	8,320
Marginal Contribution US$ /000	$11.10	$11.61	$11.55	$12.00	
FAS (US Exports)	$19.10	$20.20	$20.20	$21.00	
Exchange Rate (year end) US$ = TL	2,300	3,225	4,500	6,400	
Inflation	70.0%	60.0%	50.0%	45.0%	

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SWITZERLAND

B2. **SWITZERLAND OBJECTIVES**

		LE 1989	OB 1990	1991	1992	%CAG LE1989 -1992
Unit Volume	(mio)	6,450	6,512	6,642	6,803	1.8%
Income from Operations	($mio)	$62.5	$57.8	$64.8	$69.3	3.5%
Market Share	(%)	39.4%	40.0%	41.0%	42.0%	+2.6pts
Total Market Size	(bio)	15.9	15.8	15.7	15.7	-0.4%

MARKET OVERVIEW

The foreseen increase in retail prices of 20 centimes per pack in 1990, followed by 10 centimes in 1991 and 1992 will have a dampening effect on demand. The total market will decline from 15.9 billion units in 1989 to 15.7 billion in 1992.

Although the total market is forecast to decline, certain key segments will grow strongly, notably:

- The extra light segment will add 3.6 share points and 520 million units to reach 27.2% of the market in 1992.

- The light segment will add 1.8 share points and 230 million units to reach 31.5% of the market in 1992.

- The US/International segment will add 8 share points and over one billion units to reach 49% of the market by the end of the Plan period.

PM volumes and share are expected to rise throughout the Plan period, as we build on our current momentum and launch new brands into the growing market segments. Marlboro will be a strong contributor to this growth. While Marlboro Red had been static at 14.0% market share for a number of years, its share this year will be up 0.3 of a share point to 14.3%; conversely, Camel full flavor is essentially flat. In addition, our Philip Morris family is currently the fastest growing brand on the market, with Merit also showing steady gains.

Our major concern for Switzerland is the lack of income growth. Even with next year's price increase, which will bring the manufacturers CHF 2.69/000 (US$ 1.52/000), income from operations will be down. The exchange rate impact depresses our 1990 dollar income by $8 million.

Anti-smoking campaigns will intensify, especially with the approach of the referendum on the ad ban initiative towards the end of the Plan period. We assume that the trade agreement will be replaced. While we do not foresee a collapse of the cartel; i.e., no price war, that possibility has been treated as an alternative scenario.

INTERNATIONAL BRANDS

Marlboro: We have a strong marketing program in place; it is working and we will exploit it heavily through the Plan period. We will continue to use all available media to support Marlboro Red, including newspapers, magazines and cinema. In order to reach our target audience we shall concentrate press advertising on targeted special interest journals, obtain the maximum cinema advertising space, increase the number of outdoor poster periods, and complete our program of shop front branding. We will increase Marlboro's share of voice; Camel spending today is at the same level as Marlboro, and we will give additional weighting to regions where Marlboro's market share is below average.

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On the promotions side, we will concentrate on the two promotional themes of motorbike racing and rock music, continuing with the motorbike racing camp and sponsoring Swiss motorbike drivers in the Grand Prix World Championship. We intend to further exploit the Marlboro Rock-in and improve our sponsorship of rock festivals and concerts. We will set up a TGMP program using Marlboro for pubs, discos and game salons. We will develop a Marlboro Gold country-related promotion.

We will defend the facings we currently have for the Marlboro family, and improve Marlboro Gold distribution in hotels, restaurants and cafes. We will also upgrade the Marlboro clothing and the appearance of the promotional vehicles used by the promotions force, setting up a dedicated promotional team if necessary.

On the product side, we will continue to monitor the possible advantage to be gained from reducing the delivery levels of Marlboro Red KS from 15 mg. tar currently, to 14 mg.; Camel is at 14 mg. To capitalize on the trend towards SLTN, we will establish a position for Marlboro in 1991, with the launch of Marlboro Ultralights.

Philip Morris: We will strengthen the Philip Morris brand imagery through the implementation of the adapted "skyline" campaign, conveying the theme of people and smoking pleasure.

We will use the media that are best for reaching our target group, cinemas, special magazines and posters. We will reinforce the qualitative aspects of the campaign through promotions, in particular to generate trial to attract new smokers. We intend to create a tantalizing "Philip Morris World", using new and existing themes such as the Epcot Center contest, the Film Previews in New York contest, the Wall Street Stock Exchange game and a cinema festival sponsorship. Sampling and switch-selling activities will be key.

In order to increase distribution, we will undertake a special salesforce effort during the PM salescycle, leverage key account relationships, and tour POS with vending-machine operators.

We also plan to launch Philip Morris Ultralights in a 100s Box version in 1991 and Philip Morris Lights in 1992.

Merit: We will strengthen the Merit brand image through the implementation of a new reinforced sailing campaign, to enhance Merit's positioning as an American, Light/Extra Light and rich tasting cigarette. We will launch Merit Ultra nationally early in 1990 and Merit De Nic in 1992. To capitalize on the Whitbread Round the World Race, we will create national events during the 9-month race. These will include various "Support the Merit Crew" activities, a "Guess who is going to win the leg" contest, and additional activities to be finalized. We will also exploit this theme with post-race events, including a Pierre Fehlman tour. We will participate in the sponsorship of smaller, local race events to reinforce the theme. After fully exploiting the Race, we will maintain sailing as our main theme, and are already researching ways to bring more energy and spirit into the base campaign.

Chesterfield: We will launch Chesterfield using the international campaign to give the brand mystique, and positioning it as the "in" brand for our younger, non-conformist, well educated, and escapist target group.

We will establish a dream-world for the brand, using the Orient, a genuine world of pleasure.

Muratti & Brunette: The Muratti franchise suffers from the shift in consumer preference towards US/International brands. It no longer commands

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the number one spot among beginners and the rate of outswitching is relatively high. Our objective is to revitalize the family and to modernize and internationalize its image in order to arrest market share erosion. The Muratti family is a valuable asset, providing $ 19 million in net contribution in 1990.

We intend to enhance Muratti's international dimension to be more competitive with the leading brands, and will be launching a 4-5 mg. American blend type product using the concentric filter, Muratti Mild, in 1990. We will reinforce the modern, up-to-date, light image of the Muratti family in order to reassure and retain current smokers and to increase interest among target smokers; a 1 mg. Muratti Ultra will be launched in 1991. Both new products will be priced at parity with the Marlboro family.

In addition, we plan to pursue a step by step program to give the Muratti cigarette better taste satisfaction, to reduce the influence of the charcoal filter, and to modernize the look of the Muratti cigarettes.

We will communicate the basic image of sea, sunshine and active fun through cinema, outdoor and magazines. Further, we will use daily newspapers to communicate promotions and our product launches. Our promotions will include our successful Muratti Snowtime, the Swiss Snowboard Cup, and Swiss ski activities. For our launches, we will concentrate on sampling and switch-selling; consumer games and prizes will be of secondary importance.

Within the declining Maryland segment, Brunette has been under strong attack from the revamping of major competitors' brands. Our objective is to limit this share erosion. The family brings $10 million in net contribution in 1990. Brunette is seen as a traditional, straightforward Swiss cigarette and is smoked mainly by people of middle and low social classes. We will reduce the percentage of Maryland tobaccos in Brunette Extra, while improving the taste and aroma. We are considering similar changes for Brunette No.3. We will continue to use the helicopter theme next year, consolidating our advertising around the LTN products. Based on our analysis of Brunette advertising, we will consider stopping our DME support for the family as of 1991. In order to concentrate on Lucky Strike, BAT has stopped its marketing spend for Marylong and Marocaine, with no impact on segment shares.

<u>PRICING, TAXATION AND TRADE MARGINS</u> - Both the trade and the industry are looking to raise revenues.

By establishing a strong alliance with the Customs authorities, we have gained their support for both the 1990 and the 1991 price increases. The support of the Customs Authorities is a pre-requisite for gaining final approval by the Federal Council and is vital in the context of the Price Surveillance Office (PSO).

In addition, we are working to replace the out-dated "Ordre du Marché" with a new industry /trade agreement. We intend that the new agreement maintain the industry's margins, but be flexible enough to provide a durable framework should the formal cartel or trade agreement not exist. In the short term, we are working to liberalize the industry's restrictions on payment for image advertising at POS. This will enable us to pacify the kiosk chains through the installment of a network of in-shop mini-poster sites.

This new trade agreement will also diminish any active interest of the Cartel Commission in tobacco. By reallocating trade revenues from the larger to the smaller trade operations, we will avert the possibility of dissatisfied trade members soliciting intervention from the authorities to redress their margins.

The Plan assumes a 20 centimes increase in 1990, and 10 centimes in 1991 and in 1992. (There is a possibility that the 1990/1991 sequence of retail price increases would be reversed; the impact of this is shown on Schedule M6a.) The sharing of the price increase with the tax collector is designed to use up the remaining tax competence by 1991. A new tax competence will be granted to the Federal Council for 1992 and beyond, simultaneously with the possible introduction of the new Tobacco Law.

<u>1992</u> - The acceleration of the European integration process will increasingly have an impact on Swiss political-economic policies. Effects could include less conservative cartel legislation, modification of the turnover tax and the excise tax, anti-tobacco legislation; harsher product liability legislation, and restrictions on duty free sales, if not a total duty free ban.

Our objective is to monitor the evolution of 1992, in the EEC, in Switzerland and in the rest of EFTA and to prepare positions and argumentation for use as individual issues arise. We will develop contacts with federal administrations involved in the European process and identify appropriate opinion leaders in Swiss politics.

SWITZERLAND - THE FUTURE OF CARTELS

OVERVIEW

An essential ingredient of Switzerland's economic structure is the wide proliferation of cartels. Virtually every industrial or economic sector is regulated by a cartel or similar organization. Cartels are recognized within the Swiss constitution. The provisions of the new law on cartels (December 1985) seek to prevent the abuse of economic power by cartels while specifically condoning restraints on competition that are deemed to be in the public interest. Cartel activities are monitored and controlled by the Cartel Commission and by the Price Surveillance Office.

The tobacco industry cartel comprises two agreements. These are a manufacturers' agreement (horizontal) and a trade agreement (vertical). The latter is commonly referred to as the "Ordre du Marché".

Both the Cartel Commission (1976) and the Federal Court (1983 - Denner Suit) have ruled in favor of the industry's trade agreement and specifically its enforcement of a minimum resale price. Both institutions considered that the agreement assured a wide geographic network of retail outlets which was deemed to be in the public interest. The Cartel Commission specifically voiced a fear that without both the trade and manufacturers' agreement there would be a concentration of power within both the industry and the trade that would have harmful social and economic ramifications.

Thus there are strong economic, social and legal factors that argue for the retention of cartels in Switzerland's economic fabric.

Nevertheless the existence of the tobacco cartel could be threatened by a number of factors. The principal risks are:

1. Cartels are outlawed as part of an EFTA and EEC economic integration process.

2. A surge in the market share of cheap branded or generic imports results in a price war or dismantlement of the cartel.

3. A dissident cartel member initiates a price war.

4. Denner or a similar organization causes a collapse of the trade agreement.

The factors that limit the above risks include:

1. Historically Denner's branded cigarette imports ex-Austria, Finland and Portugal have been stable at an average monthly sales volume of about 12 million units reflecting a less than 1.0% share of market. In 1988 these nearly doubled in volume reaching a share of approximately 1.7%. The surge was as a result of a 40% discount in the price of these imports versus Marlboro combined with an aggressive advertising and sampling campaign. Since late 1988 the price of imported cigarettes has been raised and despite a price discount of 25% or more versus Marlboro their share has been at about 1.5% and their trend is stable or declining.

2. Whilst tax incidence is moderate (47.3% on Marlboro) the tax structure is predominantly specific in nature with an effective minimum specific tax of CHF 53.40/000 excluding turnover tax equivalent to 78% of Marlboro's total tax base. As such at a CIF price of $ 12.00/000, a minimum viable retail price would be CHF 17.00/carton reflecting a 35% discount versus Marlboro. At a CIF price of $ 16.00/000 the retail

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price would be approximately CHF 19.00/carton reflecting a 27% discount and in line with prevailing prices.

3. The trade structure is such that only a very powerful chain could make a major impact. Migros with a turnover of CHF 10.2 billion does not sell tobacco products as a matter of statute. It is followed by Coop with a turnover of CHF 7.7 billion which focuses entirely on branded goods. The only other chain that could and is doing it is Denner.

4. Trade margins are theoretically high, e.g., $ 17.00/000 on Marlboro. However effective in-market prices reduce this margin to $ 7.70/000. As such there is not much room for a collapse of trade margins. In fact the trade community is vociferously demanding an increase in its margins and accordingly is a useful ally in our industry pricing strategy.

5. Excise taxes are earmarked to fund the State Pension (AVS) as such we have an ally in the customs administration to maintain a very high minimum specific tax.

6. Should a price war break out it would effectively kill the smaller manufacturers, e.g., Rinsoz & Ormond, Reemtsma, Sullana and Laurens and it would possibly lead to concentration in the industry.

   Furthermore the initiator would be entirely dependent on the trade to obtain national coverage and thus would be defenseless against their demands.

STRATEGY AND ACTION PLAN

1. Revise the "Ordre du Marché". Delete its anachronistic features and ensure that the divergent interests of the trade are reconciled.

2. Convince the Customs Administration to retain a predominantly specific excise tax structure in the revision of the Tobacco Law which will be effective as of 1992.

3. Monitor Denner's activities and build a close working relationship with its management. Exploit K. Schweri's withdrawal when it becomes effective.

4. Aggressively fight price attacks with L&M.

5. Initiate and finalize a self-distribution study. Periodically update and maintain as a contingency.

6. Review potential opportunities arising from a possible concentration in the industry, e.g., acquisition or contract manufacture arrangements.

7. Monitor closely EFTA/EEC trade talks. Maintain close relationship with the Federal Department of Economy and seek to influence policy direction through tailored arguments and papers.

8. Finalize a complete study of the Swiss brewing industry. Seek to identify plans of action from this study.

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SWITZERLAND

MAJOR UPSIDE/DOWNSIDE TO 1992 INCOME

UPSIDE The domestic market grows faster to 15.8 billion instead of 15.7 billion and PM secures an addition 0.5% points to attain 42.5% market share, providing an additional 125 million units.

DOWNSIDE Competitive international brands are aggressively launched to develop a new mid-price segment capturing 5% share of the market. This volume comes from the premium segment, negatively impacting PM to the extent of 455 million units.

		1992		
		DOWN	BASE	UP
Total PM Volume	(mio)	6348	6803	6928
Available profit	($ mio)	$120.5	$130.5	$140.1
Variance from Base	($ mio)	($10.0)		+$9.6

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Schedule M-1

SWITZERLAND TOTAL - INCOME STATEMENT

(US $ 000)

	LE 1989	OB 1990	1991	1992	CAG % LE89-92
UNIT VOLUME (millions)	6,450	6,512	6,642	6,803	1.8%
TOTAL OPERATING REVENUES	$182,800	$179,616	$192,464	$204,315	3.8%
Standard variable cost	49,800	51,790	55,908	60,045	6.4%
Standard cost deviations	1,400	752	763	769	-18.1%
LIFO Adjustment	-	4	6	7	N/A
MARGINAL CONTRIBUTION	$131,600	$127,070	$135,786	$143,494	2.9%
Advertising	33,800	33,147	33,220	34,746	0.9%
Sales and promotional allowances	-	-	-	-	N/A
NET CONTRIBUTION	$97,800	$93,923	$102,566	$108,748	3.6%
Local overheads	19,600	18,880	19,829	20,828	2.0%
Other indirect marketing	1,700	1,613	1,732	1,816	2.2%
NET CONTROLLABLE MARGIN	$76,500	$73,430	$81,005	$86,104	4.0%
Area overheads	-	-	-	-	
Fixed manufacturing expenses	10,200	11,510	12,432	12,931	8.2%
General & administrative	3,800	4,161	3,812	3,865	0.6%
INCOME FROM OPERATIONS	$62,500	$57,759	$64,761	$69,308	3.5%
Local Inflation Rate	4.4%	4.0%	4.0%	4.0%	
Exchange Rate USD=CHF	1.64	1.77	1.77	1.77	

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Schedule M-1A

SWITZERLAND TOTAL - INCOME STATEMENT

(US $ per thousand)

	LE 1989	OB 1990	1991	1992	CAG % LE89-92
UNIT VOLUME (millions)	6,450	6,512	6,642	6,803	1.8%
TOTAL OPERATING REVENUES	$28.34	$27.58	$28.98	$30.03	2.0%
Standard variable cost	7.72	7.95	8.42	8.83	4.6%
Standard cost deviations	0.22	0.12	0.11	0.11	-19.5%
LIFO Adjustment	-	0.00	0.00	0.00	N/A
MARGINAL CONTRIBUTION	$20.40	$19.51	$20.44	$21.09	1.1%
Advertising	5.24	5.09	5.00	5.11	-0.9%
Sales and promotional allowances	-	-	-	-	N/A
NET CONTRIBUTION	$15.16	$14.42	$15.44	$15.99	1.8%
Local overheads	3.04	2.90	2.99	3.06	0.2%
Other indirect marketing	0.26	0.25	0.26	0.27	0.4%
NET CONTROLLABLE MARGIN	$11.86	$11.28	$12.20	$12.66	2.2%
Area overheads	-	-	-	-	
Fixed manufacturing expenses	1.58	1.77	1.87	1.90	6.3%
General & administrative	0.59	0.64	0.57	0.57	-1.2%
INCOME FROM OPERATIONS	$9.69	$8.87	$9.75	$10.19	1.7%
Local Inflation Rate	4.4%	4.0%	4.0%	4.0%	
Exchange Rate USD=CHF	1.64	1.77	1.77	1.77	

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SWITZERLAND

COMPARISON WITH LAST YEAR'S PLAN

(US$ millions)

	1990-1992 Three Year Plan			Last Year's Plan			Fav./(Unfav.)		
	1989 LE	1990 OB	1991	1989	1990	1991	1989 LE	1990 OB	1991
UNIT VOLUME (millions)	6,450	6,512	6,642	6,548	6,752	6,957	(98)	(240)	(315)
TOTAL OPERATING REVENUES	$438.3	$437.3	$466.7	$469.1	$504.8	$541.2	($30.8)	($67.5)	($74.5)
MARGINAL CONTRIBUTION	131.6	127.1	135.8	142.1	148.2	154.5	(10.5)	(21.1)	(18.7)
F.M.E.	10.2	11.5	12.4	13.3	13.7	14.2	3.1	2.2	1.8
Direct Marketing	33.8	33.1	33.2	41.3	43.7	44.2	7.5	10.6	11.0
Indirect Marketing	21.3	20.5	21.6	23.5	24.2	24.9	2.2	3.7	3.3
G & A	3.8	4.2	3.8	3.8	3.4	3.4	-	(0.8)	(0.4)
Total Expenses	69.1	69.3	71.0	81.9	85	86.7	12.8	15.7	15.7
INCOME FROM OPERATIONS	$62.5	$57.8	$64.8	$60.2	$63.2	$67.8	$2.3	($5.4)	($3.0)

SWITZERLAND: SUMMARY OF 1987, 1988, 1989 AND 1990 PLANS

Market Share (%) (a)	1986	1987	1988	1989	1990	1991	1992	Plan Period Growth
1987 Plan	38.0	39.0	40.2	41.6	-	-	-	3.6 pts
1988 Plan	-	38.5	38.8	39.9	41.0	-	-	2.5
1989 Plan	-	-	38.8	40.0	41.2	42.5	-	3.7
1990 Plan	-	-	-	39.4 (LE)	40.0	41.0	42.0	2.6
Actual	37.3	38.0	38.4	39.4 (LE)				
PM Unit Volume (millions)								
1987 Plan	6,097	6,300	6,424	6,515	-	-	-	2.2 % CAG
1988 Plan	-	6,309	6,365	6,549	6,738	-	-	2.2
1989 Plan	-	-	6,389	6,548	6,752	6,957	-	2.9
1990 Plan	-	-	-	6,450 (LE)	6,512	6,642	6,803	1.8
Actual	6,126	6,170	6,264	6,450 (LE)				
Income from Operations ($ millions)								
1987 Plan	51.6	53.8	51.4	57.3	-	-	-	3.6 % CAG
1988 Plan	-	61.3	59.7	61.8	65.8	-	-	2.4
1989 Plan	-	-	63.0	60.2	63.3	67.8	-	2.5
1990 Plan	-	-	-	62.5 (LE)	57.8	64.8	69.3	3.5
Actual	53.8	61.3	63.5	62.5 (LE)				

(a) Market share Switzerland domestic.

Schedule M-3

Switzerland competitor profile

1. Market Share

(%)

	1987	1988	LE 1989	OB 1990	1991	1992
Philip Morris	38.0%	38.4%	39.4%	40.0%	41.0%	42.0%
Burrus	22.4%	21.3%	20.5%	19.7%	18.8%	17.9%
BAT	19.3%	19.2%	18.6%	18.3%	17.9%	17.5%
Reynolds	8.0%	9.0%	9.8%	10.7%	11.6%	12.3%
Rinsoz & Ormond	5.3%	4.9%	4.7%	4.5%	4.2%	4.0%
Sullana	3.5%	3.6%	3.6%	3.5%	3.3%	3.2%
Laurens	2.0%	1.8%	1.7%	1.6%	1.6%	1.5%
Reemtsma	1.6%	1.5%	1.5%	1.5%	1.5%	1.5%
Others	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%
Total Market	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2. Domestic Unit Volume

(billions)

	1987	1988	LE 1989	OB 1990	1991	1992
Philip Morris	6.03	6.10	6.26	6.32	6.44	6.59
Burrus	3.55	3.39	3.26	3.11	2.95	2.81
BAT	3.06	3.04	2.96	2.89	2.81	2.75
Reynolds	1.27	1.42	1.56	1.69	1.82	1.93
Rinsoz & Ormond	0.84	0.78	0.75	0.71	0.66	0.63
Sullana	0.55	0.58	0.57	0.56	0.52	0.50
Laurens	0.31	0.29	0.28	0.26	0.25	0.24
Reemtsma	0.25	0.24	0.24	0.24	0.24	0.24
Others	0.03	0.03	0.03	0.02	0.02	0.02
Total Market	15.89	15.86	15.90	15.80	15.70	15.70

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Schedule M-4

SWITZERLAND DOMESTIC - BRAND MIX

	PM SHIPMENTS (Millions)					PM MARKET SHARES (%)				
	LE 1989	OB 1990	1991	1992	CAG LE89-92	LE 1989	OB 1990	1991	1992	CHANGE LE89-92 (pts)
Marlboro Red	2,270	2,270	2,290	2,325	0.8%	14.3%	14.4%	14.6%	14.8%	0.5
Marlboro Gold	810	900	970	1,020	8.0%	5.1%	5.7%	6.2%	6.5%	1.4
Marlboro Lgts Men.	20	20	20	20	0.0%	0.1%	0.1%	0.1%	0.1%	0.0
Marlboro Ultralights	0	0	60	155	NA	0.0%	0.0%	0.4%	1.0%	1.0
Total Marlboro	3,100	3,190	3,340	3,520	4.3%	19.5%	20.2%	21.3%	22.4%	2.9
Merit	95	120	155	180	23.7%	0.6%	0.8%	1.0%	1.1%	0.5
Merit Ultra	0	35	50	65	NA	0.0%	0.2%	0.3%	0.4%	0.4
Merit De-Nic.	0	0	0	10	NA	0.0%	0.0%	0.0%	0.1%	0.1
Total Merit	95	155	205	255	39.0%	0.6%	1.0%	1.3%	1.6%	1.0
Philip Morris Extra	350	405	440	455	9.1%	2.2%	2.6%	2.8%	2.9%	0.7
Philip Morris Ultra	80	110	125	135	27.3%	0.5%	0.7%	0.9%	1.1%	0.5
Philip Morris Ultra 100	0	0	20	30	NA	0.0%	0.0%	0.1%	0.2%	0.2
Philip Morris Lights	0	0	0	20	NA	0.0%	0.0%	0.0%	0.1%	0.1
Total Philip Morris	430	515	585	640	14.2%	2.7%	3.3%	3.7%	4.1%	1.4
Chesterfield KS Box	6	8	25	35	80.0%	0.0%	0.1%	0.2%	0.2%	0.2
Chesterfield Mild	0	8	40	52	NA	0.0%	0.1%	0.2%	0.3%	0.3
Chesterfield N.F.	3	3	3	3	0.0%	0.0%	0.0%	0.0%	0.0%	0.0
Total Chesterfield	9	19	68	90	115.4%	0.1%	0.1%	0.4%	0.6%	0.5
Muratti	1,446	1,375	1,285	1,215	-5.6%	9.1%	8.7%	8.2%	7.7%	(1.4)
Muratti Mild	0	35	60	100	NA	0.0%	0.2%	0.4%	0.6%	0.6
Muratti Ultra	0	0	30	50	NA	0.0%	0.0%	0.2%	0.3%	0.3
Total Muratti	1,446	1,410	1,375	1,365	-1.9%	9.1%	8.9%	8.8%	8.7%	(0.4)
Brunette	875	778	640	530	-15.4%	5.5%	4.9%	4.1%	3.4%	(2.1)
Arlette	35	29	26	22	-14.4%	0.2%	0.2%	0.2%	0.1%	(0.1)
Flint	58	48	41	33	-17.6%	0.4%	0.3%	0.3%	0.2%	(0.2)
Multifilter	67	57	53	46	-12.1%	0.4%	0.4%	0.3%	0.3%	(0.1)
North Pole	73	60	55	48	-12.8%	0.5%	0.4%	0.3%	0.3%	(0.1)
Star	20	15	13	10	-20.9%	0.1%	0.1%	0.1%	0.1%	(0.1)
L&M	6	6	6	6	1.7%	0.0%	0.0%	0.0%	0.0%	0.0
Job	4	4	3	2	-21.9%	0.0%	0.0%	0.0%	0.0%	(0.0)
Others	42	35	30	24	-17.4%	0.3%	0.2%	0.2%	0.2%	(0.1)
Subtotal	305	253	227	190	-14.6%	1.9%	1.6%	1.4%	1.2%	(0.7)
Total PM	6,260	6,320	6,440	6,590	1.7%	39.4%	40.0%	41.0%	42.0%	2.6
Total Market	15,900	15,800	15,700	15,700	-0.4%	100.0%	100.0%	100.0%	100.0%	
Duty free shipments	190	192	202	213	3.9%					
Total Switzerland	6,450	6,512	6,642	6,803	1.8%					

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Schedule M-6

Switzerland Retail Price Increases

Marlboro Red Box (CHF per 000)	Base Price (12/31/89)	Increases 1990	1991	1992	Price (12/31/92)
Manufacturer	48.70	2.69	1.91	1.35	54.65
Taxes	68.54	5.78	2.03	2.91	79.26
Distribution/Trade	27.76	1.53	1.06	0.74	31.09
Total Price Increase		10.00	5.00	5.00	
Date of Increase	April	April	April	April	
Ending Retail Price					
CHF per 000	145.00	155.00	160.00	165.00	165.00
CHF per pack	2.90	3.10,	3.20	3.30	3.30
Marginal Contribution					
CHF per 000	36.93	37.65	39.28	40.30	
US$ per 000	$22.66	$21.27	$22.19	$22.77	

NOTE: Components of Total Tax

	Base Price (12/31/89)	Increases 1990	1991	1992	Ending Tax (12/31/92)
Total Tax					
CHF per Pack	1.37	0.12	0.04	0.06	
CHF per 000	68.54	5.78	2.03	2.91	
of which:					
Excise Tax	57.15	5.05	1.70	2.55	66.45
SOTA	1.39	0.00	0.00	0.00	1.39
Turnover Tax	10.00	0.73	0.33	0.36	11.42
Exchange Rate					
US$ = CHF	1.63	1.77	1.77	1.77	
Local Inflation Rate	4.4%	4.0%	4.0%	4.0%	

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Schedule M-6a

Alternative scenario
Switzerland Retail Price Increases

Marlboro Red Box (CHF per 000)	Base Price (12/31/89)	Increases 1990	1991	1992	Price (12/31/92)
Manufacturer	48.70	2.50	2.10	1.35	54.65
Taxes	68.54	1.06	6.75	2.91	79.26
Distribution/Trade	27.76	1.44	1.15	0.74	31.09
Total Price Increase		5.00	10.00	5.00	
Date of Increase	April	April	April	April	
Ending Retail Price					
CHF per 000	145.00	150.00	160.00	165.00	165.00
CHF per pack	2.90	3.00	3.20	3.30	3.30
Marginal Contribution					
CHF per 000	36.93	37.51	39.23	40.29	
US$ per 000	$22.66	$21.19	$22.16	$22.76	

NOTE: Components of Total Tax

Total Tax	Base Price (12/31/89)	Increases 1990	1991	1992	Ending Tax (12/31/92)
CHF per Pack	1.37	0.02	0.14	0.06	
CHF per 000	68.54	1.06	6.75	2.91	
of which:					
Excise Tax	57.15	0.75	6.00	2.55	66.45
SOTA	1.39	0.00	0.00	0.00	1.39
Turnover Tax	10.00	0.31	0.75	0.36	11.43
Exchange Rate					
US$ = CHF	1.59	1.77	1.77	1.77	
Local Inflation Rate	4.4%	4.0%	4.0%	4.0%	

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FINLAND

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B3. **FINLAND OBJECTIVES**

		LE 1989	OB 1990	1991	1992	%CAG LE1989 -1992
Unit Volume	(mio)	4,790	4,883	4,995	5,100	2.1%
Income from Operations	($mio)	$34.5	$37.4	$41.3	$47.4	11.2%
Market Share	(%)	63.9%	65.5%	67.0%	68.5%	+4.6pts
Total Market Size	(mio)	7,500	7,450	7,450	7,450	-0.2%

MARKET OVERVIEW

With the near 8% retail price increase foreseen for yearend 1989, the total market is expected to drop 0.7% in 1990 to 7.45 billion units, and to remain at that level through the Plan period. In 1991 and 1992, retail prices increases will be just above inflation.

There will be a continuation of the underlying consumer trends towards international brands, to the detriment of domestic brands, and favoring light products, at the expense of full flavor products. International brands, which sell at a premium of less than 5% versus domestic LS/KS products, will move from 52.6% of the market in 1989 to 56.4% of the market in 1992. The 4.4 share point decline foreseen for full flavor products will fuel gains in both the LTN and SLTN segments. The 6 to 10 mg. tar segment will rise 1.2 share points to reach 24.2% of the market in 1992, while products below 6 mg. tar will add 3.2 share points to capture 18.2%. Menthol taste is also gaining in preference and will hold 9.3% of the market by 1992, up from 8.1% today.

Our Marlboro and Belmont offerings are well adapted to these trends, if not driving them, and today have surpassed 63% market share. We have grown our share in each taste segment, including the important Menthol segment, and will continue to do so. By 1992, we will have captured two-thirds of the full flavor segment, 85% of the 6-10 mg. category, over half of the below 5 mg. category, and we will have 80% of the Menthol segment. The major challenge is to defend our position against our international competitors. Barclay, launched in 1983 and the only new free standing family to establish itself in the market since the implementation of the Tobacco Law in 1978, now holds a market share of 3.4%. Camel, our second major challenger, has grown steadily from a market share of 1% in 1985 to 2.5% in 1989.

Among our four competitors in Finland, comprising RJR, Suomen Tupakka (BAT), Rettig and Amer, RJR poses the greatest threat; RJR manufactures under license in the Rettig factory. The Camel franchise is growing and with the recent re-launch of Winston in a soft pack at the Belmont/Colt price, they have signaled that they are ready to use price as a weapon; a Gold Coast launch at the regular size price class cannot be ruled out.

To date, financial security afforded by ST's (BAT) export volume, plus their apparent reticence to instigate a breakup in the industry association has deterred ST from entering the price arena. However, we expect the continuing decline in North State volume, the potential disruption to Barclay growth arising from the forthcoming change in printed deliveries from 1 mg. to 5 mg. tar, and their general lack of success with new brand launches to force them to reconsider price. In the future, Lucky Strike or Viceroy at the mid price are likely entrants, as is a new Barclay 1 mg. offering in the Marlboro price category.

Rettig's vulnerability remains the decline of its Colt family, coupled with share losses in the declining Roll-Your-Own segment. From 1989 to 1992, the Rettig brands are expected to lose 240 million units in sales and 3.2 market share points. By the end of the plan period, RJR's brands will represent

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nearly one-third of the factory's cigarette volume. While posing a threat to PM, the growing RJR franchise has helped deter Rettig from undertaking a stronger contest on price. To date, Rettig's pricing manoeuvers have been limited to efforts to widen the price differentials between the international and domestic LS/KS products, and to periodic discount offers to the trade.

The Marlboro/Colt price differential has been held at 50 pennies since June 1986. At that time it represented a price advantage of 4.8%; today it is equal to only 3.9% of the Marlboro price. Thus, we expect the price differential between Marlboro and Colt to widen to 60 pennies per pack. Even so, Colt's price advantage will remain under 5%.

Although competition will become more aggressive with brand launches and some pricing initiatives, the major threat to the industry's future growth and profitability comes from the health authorities, other antis and their widespread support in the Government. While the industry was successful in averting a penal tax-driven price increase of some 20% as proposed by Parliament in June of this year, the Minister of Finance has signaled his willingness to endorse tobacco tax/price increases if the resulting price escalation can be kept from impacting the price index to which social welfare programs and wage agreements are linked.

The last excise tax rate increase of 1 percentage point in May 1988 was followed by a 0.5 percentage point increase in the turnover tax in June 1989. A further 0.5 percentage point hike in the turnover tax rate is foreseen for December 1989. At 69.42% tax incidence, Finland will still be slightly below the tax incidence norm in the EEC.

In addition to tax and pricing pressures, the further tightening of marketing and product restrictions is threatened, as evidenced by the National Board of Health's ruling this year on the Belmont boat sponsorship.

ISSUES, OBJECTIVES AND ACTIONS

Marlboro Red/full flavor products - Long term, volume growth is constrained by the diminishing size of the full flavor segment despite the growing dominance of international brands within the segment. Our objective is to constrain the growth of Camel and any new competitive offerings, and thus to retain a Marlboro Red share of at least 90% within the premium price full flavor segment.

International sponsorships in motor racing will reinforce the Marlboro image. In addition to keeping our Country Club party themes in line with trend setting developments, we plan to launch in 1990 a Marlboro News Magazine, directed at the trade. We will also develop our key account relationships, designing special Marlboro campaigns for a major kiosk chain, and for gas stations, as well as exploit the relative POSM freedom offered in cash and carry outlets.

Our launch plan for Chesterfield full flavor will be implemented in 1990 as the better-than-Camel alternative for those consumers who seek an alternative to Marlboro Red. We will be exploiting all international promotions to create image and brand excitement; we will coordinate with duty free promotions to create awareness and to reinforce image; and we will provide the trade with impactful give-aways.

A full flavor product response in the domestic LS/KS price class and in the regular size price class is being prepared should we need to contest Winston-type product initiatives or should consumers show signs of trading down to North State-type products. The L&M blend will be aligned with the European blend and the packaging updated to be made launch-ready as a

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contingency for the mid-price segment, while Bond (a slim 80 mm product) is our candidate for the North State category.

<u>GROWTH SEGMENTS</u> - Our new brand program will focus on the premium price SLTN segment. This segment has been created by Barclay; it shows growth potential and today we do not participate. We expect to capitalize on the market disruption caused by the forthcoming change in its printed numbers from 1 mg. tar to 5 mg. tar, and prevent Barclay from readily maintaining smokers with its expected launch of a real 1 mg. product.

We will launch Marlboro Ultralights in 1991 and Philip Morris Superlights in 1992. Marlboro Ultralights will receive instant in-shop impact, piggy-backing on the dominant visibility created by the rest of the family. Both introductions will be part of coordinated Pan-Nordic launch plans, including duty free. In preparation for the PMSL launch in 1992, we will gear up our corporate advertising program until it ceases in 1992, to comply with existing brand marketing restrictions.

To exploit the growing preference for Menthol products, we intend to parallel the success of last year's Marlboro Lights Menthol launch within the Belmont family by introducing Belmont 2002 Menthol, planned for 1991.

<u>UNIT PROFITABILITY</u> - Our objective is to improve the profitability of all brands. Near term, this encompasses maximizing industry retail price increases, maximizing the selling prices of PM leaf and ingredients, and expanding our standardization programs. For Belmont, we are reformulating the Belmont recipe with all variants to use Basic Blend, where the percent BBS is the maximum possible while retaining quality and taste characteristics. The change is scheduled for November 1989, and will generate an average of $0.38/000 in additional marginal contribution for the family. In 1990, the total unit margin on Belmont Extra is $ 8.45/000 and on Belmont 2002 $ 8.51/000, versus $ 9.83/000 for Marlboro Red Soft.

The current contract with Amer expires year end 1991. We will evaluate all feasible options to the current agreement, including termination of the agreement and resourcing from FTR or contract manufacture with Amer. At a minimum, we would look for greater financial returns from a renewal of the license/profit share agreement. Should we elect to continue the agreement, the apportioning of our income among supply prices, fixed royalties, variable royalties and other fee income would be specified such that we maximize overall income while minimizing any tax exposure in Finland. Negotiations are not expected to begin in earnest until mid-1990. For the purpose of the plan we have shown a doubling of our royalty to $1.20/000 in 1992.

To build a stronger negotiating position, we intend to establish FTR as a credible alternative for sourcing our products for Finland. Chesterfield is already designated for manufacture at FTR, and will provide an incremental margin of $1.72/000, versus manufacture under license. PMSL is another candidate. We plan to terminate our duty free contract and the contract manufacture agreement whereby Amer is entitled to produce for Sweden and Norway, Philip Morris and Chesterfield; both are KS non-filter products.

<u>PM-AMER RELATIONSHIP</u> - Our objective is to increase PM's control in all major aspects of the business in order to assure sufficient managerial and salesforce attention to the PM business. We will continue to use a jointly agreed salesforce plan to ensure proper focus of the salesforce on PM brands, where detailed sales cycles and call missions will be specified; quantifiable performance goals such as share of shelf space and market share improvement will be measured.

We have succeeded in achieving greater PM involvement in the industry's retail pricing decisions and plan to extend this to include active participation in the NMA. Contacts with other industry leaders have already started, and we intend the planned-for PM Corporate Affairs manager to obtain official membership in the NMA. Using the Swedish NMA as a model, where all trademark owners are part of the NMA, our objective is to achieve PM management participation in the Finnish NMA.

TAXATION AND RETAIL PRICE MAINTENANCE

Given the wholly ad valorem tax structure, high trade margins and the resulting total multiplier of 6.4, Finland is ripe for price cutting should the minimum excise tax mechanism lapse and the cartel arrangement break down. The recent tax rate increases and the very limited retail price differentials exacerbate this. Further, the antis will continue their pressure for penal tax-driven price increases to curb consumption. As long as the Minister of Finance can limit the impact of such moves on his social welfare programs, he has shown a willingness to support higher prices, in order to generate incremental fiscal revenues. Our objective is to introduce and maximize the specific element in the excise tax system without raising total tax incidence.

With our competitors showing more interest in pursuing specific taxation and the Minister of Finance actively studying the tobacco tax, we foresee a greater opportunity to achieve our ultimate objective of a specific tax element set at a level equivalent to 90% of the total excise tax. Our preference is for the specific element to be updated automatically, either through indexation to the CPI or some other systematic revision. Complete pricing freedom for the manufacturers is a pre-requisite.

Though taxation is a priority, trade margins are excessively high in Finland, at 15.40% of the retail price versus a norm of 9%-10% in the EEC and compared to 15.68% of the retail price for the Finnish manufacturer. While specific taxation and the lower multiplier will alleviate some of the pressure on pricing arising from the high trade margin, our objective is to prevent any trade initiatives to increase this margin. We will actively educate the trade on the superior profitability generated by cigarettes in order to achieve better support for our products and to dilute any forthcoming initiatives to push for higher margins.

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FINLAND

MAJOR UPSIDE/DOWNSIDE TO 1992 INCOME

UPSIDE The market grows to 7.6 billion units instead of 7.45 billion. In addition the government adopts the new taxation structure which provides for a slightly lower burden on the Marlboro class and a slightly higher burden on the Belmont class. The impacts are taken on the margins and not the retail prices.

DOWNSIDE Penal taxation is introduced which drives retail prices 20% higher. The overall market contracts by 10% and re-segments towards the lower price classes, benefiting Belmont by 128 million units but adversely hitting our premium volume by 745 million.

		1992		
		DOWN	BASE	UP
Total PM Volume	(mio)	4481	5100	5200
Available profit	($ mio)	$48.9	$56.3	$57.9
Variance from Base	($ mio)	($7.4)		+$1.6
		======		=====

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Schedule M-1

FINLAND TOTAL - INCOME STATEMENT

(US $ 000)

	LE 1989	OB 1990	1991	1992	CAG % LE89-92
UNIT VOLUME (millions)	4,790	4,883	4,995	5,100	2.1%
TOTAL OPERATING REVENUES	$61,800	$65,645	$72,309	$80,848	9.4%
Standard variable cost	18,600	19,201	20,496	21,673	5.2%
Standard cost deviations	500	341	348	354	-10.9%
LIFO Adjustment	100	81	83	84	-5.6%
MARGINAL CONTRIBUTION	$42,600	$46,022	$51,383	$58,737	11.3%
Advertising	3,200	3,675	4,545	5,295	18.3%
Sales and promotional allowances	-	-	-	-	N/A
NET CONTRIBUTION	$39,400	$42,347	$46,838	$53,442	10.7%
Local overheads	1,600	1,537	1,773	1,898	5.9%
Other indirect marketing	600	431	511	574	-1.5%
NET CONTROLLABLE MARGIN	$37,200	$40,379	$44,554	$50,970	11.1%
Area overheads	600	757	909	1,003	18.7%
Fixed manufacturing expenses	2,100	2,184	2,323	2,479	5.7%
General & administrative	-	35	45	57	N/A
INCOME FROM OPERATIONS	$34,500	$37,403	$41,277	$47,431	11.2%
Local Inflation Rate	6.0%	6.0%	6.0%	6.0%	
Exchange Rate USD=FIM	4.30	4.40	4.40	4.40	

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Schedule M-1A

FINLAND TOTAL - INCOME STATEMENT

(US $ per thousand)

	LE 1989	OB 1990	1991	1992	CAG % LE89-92
UNIT VOLUME (millions)	4,790	4,883	4,995	5,100	2.1%
TOTAL OPERATING REVENUES	$12.90	$13.44	$14.48	$15.85	7.1%
Standard variable cost	3.88	3.93	4.10	4.25	3.1%
Standard cost deviations	0.10	0.07	0.07	0.07	-12.7%
LIFO Adjustment	0.02	0.02	0.02	0.02	-7.6%
MARGINAL CONTRIBUTION	$8.89	$9.43	$10.29	$11.52	9.0%
Advertising	0.67	0.75	0.91	1.04	15.8%
Sales and promotional allowances	-	-	-	-	N/A
NET CONTRIBUTION	$8.23	$8.67	$9.38	$10.48	8.4%
Local overheads	0.33	0.31	0.35	0.37	3.7%
Other indirect marketing	0.13	0.09	0.10	0.11	-3.5%
NET CONTROLLABLE MARGIN	$7.77	$8.27	$8.92	$9.99	8.8%
Area overheads	0.13	0.16	0.18	0.20	16.2%
Fixed manufacturing expenses	0.44	0.45	0.47	0.49	3.5%
General & administrative	-	0.01	0.01	0.01	N/A
INCOME FROM OPERATIONS	$7.20	$7.66	$8.26	$9.30	8.9%
Local Inflation Rate	6.0%	6.0%	6.0%	6.0%	
Exchange Rate USD=FIM	4.30	4.40	4.40	4.40	

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FINLAND

COMPARISON WITH LAST YEARS PLAN

(US$ millions)

	1990-1992 Three Year Plan			Last Year's Plan			Fav./(Unfav.)		
	1989 LE	1990 OB	1991	1989	1990	1991	1989	1990	1991
UNIT VOLUME (millions)	4,790	4,882	4,995	4,600	4,765	4,946	190	117	49
TOTAL OPERATING REVENUES	$61.8	$65.6	$72.3	$59.8	$66.1	$71.1	$2.0	($0.5)	$1.2
MARGINAL CONTRIBUTION	42.6	46.0	51.4	40.6	44.7	48.3	2.0	1.3	3.1
F.M.E.	2.1	2.2	2.3	2.0	2.2	2.3	(0.1)	-	-
Direct Marketing	3.2	3.7	4.5	3.7	4.0	4.5	0.5	0.3	-
Indirect Marketing	2.8	2.7	3.2	1.9	2.0	2.1	(0.9)	(0.7)	(1.1)
G & A	-	-	0.1	-	-	0.1	-	-	-
Total Expenses	8.1	8.6	10.1	7.6	8.2	9.0	(0.5)	(0.4)	(1.1)
INCOME FROM OPERATIONS	$34.5	$37.4	$41.3	$33.0	$36.5	$39.3	$1.5	$0.9	$2.0

FINLAND: SUMMARY OF 1987, 1988, 1989 AND 1990 PLANS

Market Share (%)	1986	1987	1988	1989	1990	1991	1992	Plan Period Growth
1987 Plan	57.1	59.0	59.6	60.9	-	-	-	3.8 pts
1988 Plan	-	59.9	61.5	62.5	63.5	-	-	3.6
1989 Plan	-	-	61.8	63.0	64.4	65.9	-	4.1
1990 Plan	-	-	-	63.9 (LE)	65.5	67.0	68.5	4.6
Actual	58.6	59.9	62.3	63.9 (LE)				
PM Unit Volume (millions)								
1987 Plan	4,110	4,158	4,254	4,366	-	-	-	2.0 % CAG
1988 Plan	-	4,312	4,430	4,514	4,599	-	-	2.2
1989 Plan	-	-	4,450	4,600	4,765	4,946	-	3.6
1990 Plan	-	-	-	4,790 (LE)	4,882	4,995	5,100	2.1
Actual	4,231	4,613	4,640	4,790 (LE)				
Income from Operations ($ millions)								
1987 Plan	16.7	18.0	19.1	20.3	-	-	-	6.7 % CAG
1988 Plan	-	24.6	26.3	28.9	35.1	-	-	12.6
1989 Plan	-	-	30.2	33.0	36.5	39.3	-	9.2
1990 Plan	-	-	-	34.5 (LE)	37.4	41.3	47.4	11.2
Actual	21.2	27.9	34.6	34.5 (LE)				

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Schedule M-4

FINLAND- BRAND MIX

	UNIT VOLUME - SHIPMENTS (MIO)				CAG	MARKET SHARES (%)				CHANGE
	1989 LE	1990 OB	1991	1992	89-92	1989 LE	1990 OB	1991	1992	89-92 (pts)
MARLBORO RED BOX	465.0	454.5	445.0	440.0	-1.8%	6.2	6.1	6.0	5.9	(0.3)
MARLBORO RED SOFT	2,100.0	2,048.8	2,030.0	2,020.0	-1.3%	28.0	27.5	27.2	27.1	(0.9)
MARLBORO RED 100 BOX	27.0	22.4	20.0	20.0	-9.5%	0.4	0.3	0.3	0.3	(0.1)
SUB TOTAL MARLBORO RED	2,592.0	2,525.7	2,495.0	2,480.0	-1.5%	34.6	33.9	33.5	33.3	(1.3)
MARLBORO LIGHTS BOX	136.5	141.6	147.0	152.0	3.7%	1.8	1.9	2.0	2.0	0.2
MARLBORO LIGHTS SOFT	331.5	365.1	375.0	380.0	4.7%	4.4	4.9	5.0	5.1	0.7
MARLBORO LIGHTS 100 BOX	12.0	7.5	8.0	8.0	-12.6%	0.2	0.1	0.1	0.1	(0.1)
SUB TOTAL MARLBORO LIGHTS	480.0	514.2	530.0	540.0	4.0%	6.4	6.9	7.1	7.2	0.8
MARLBORO LIGHTS MENTHOL BOX	105.0	141.6	180.0	200.0	24.0%	1.4	1.9	2.4	2.7	1.3
MARLBORO MENTHOL BOX	270.0	268.2	270.0	270.0	0.0%	3.6	3.6	3.6	3.6	0.0
SUB TOTAL MARLBORO MENTHOL	375.0	409.8	450.0	470.0	7.8%	5.0	5.5	6.0	6.3	1.3
MARLBORO ULTRALIGHTS	0.0	0.0	40.0	50.0	N/A	0.0	0.0	0.5	0.7	0.7
TOTAL MARLBORO	3,447.0	3,449.7	3,515.0	3,540.0	0.9%	46.0	46.3	47.2	47.5	1.6
BELMONT EXTRA MILD BOX	580.5	573.7	585.0	596.0	0.9%	7.7	7.7	7.9	8.0	0.3
BELMONT MENTHOL BOX	67.5	67.1	62.0	60.0	-3.9%	0.9	0.9	0.8	0.8	(0.1)
BELMONT FILTER BOX	152.2	149.0	144.0	142.0	-2.3%	2.0	2.0	1.9	1.9	(0.1)
BELMONT 2002 BOX	510.0	588.6	594.0	603.0	5.7%	6.8	7.9	8.0	8.1	1.3
BELMONT 2002 MENTHOL BOX	0.0	0.0	15.0	24.0	N/A	0.0	0.0	0.2	0.3	0.3
TOTAL BELMONT	1,310.3	1,378.4	1,400.0	1,425.0	2.8%	17.5	18.5	18.8	19.1	1.7
L&M SOFT	7.5	2.2	1.0	1.0	-48.9%	0.1	0.0	0.0	0.0	(0.1)
MULTIFILTER BOX	25.3	29.8	39.0	44.0	20.3%	0.3	0.4	0.5	0.6	0.3
CHESTERFIELD KS FILTER SOFT	0.0	22.4	40.0	60.0	N/A	0.0	0.3	0.5	0.8	0.8
PM SUPERLIGHTS BOX	0.0	0.0	0.0	30.0	N/A	0.0	0.0	0.0	0.4	0.4
TOTAL PM	4,790.0	4,882.5	4,995.0	5,100.0	2.1%	63.9	65.5	67.0	68.5	4.6
TOTAL MARKET	7,500.0	7,450.0	7,450.0	7,450.0	-0.2%	100.0	100.0	100.0	100.0	

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Schedule M-3

Finland Competitor Profile

1. Market Share

(%)

COMPANY	1987	1988	LE 1989	OB 1990	1991	1992
Philip Morris	59.9%	62.3%	63.9%	65.5%	67.0%	68.5%
BAT Suomen Tupakka	20.1%	19.8%	18.6%	18.0%	17.4%	16.6%
RJ Reynolds	1.6%	2.0%	2.7%	3.2%	3.7%	4.2%
Rettig	15.3%	13.3%	12.2%	11.1%	10.0%	9.0%
Amer Tupakka	3.0%	2.6%	2.5%	2.1%	1.8%	1.6%
Other	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Total Market	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2. Domestic Unit Volume

(Billions)

COMPANY	1987	1988	LE 1989	OB 1990	1991	1992
Philip Morris	4.61	4.63	4.79	4.88	5.00	5.10
BAT Suomen Tupakka	1.55	1.47	1.40	1.34	1.29	1.24
RJ Reynolds	0.12	0.15	0.20	0.24	0.27	0.31
Rettig	1.18	0.99	0.92	0.83	0.75	0.67
Amer Tupakka	0.23	0.19	0.19	0.16	0.13	0.12
Other	0.01	0.01	0.01	0.01	0.01	0.01
Total Market	7.69	7.43	7.50	7.45	7.45	7.45

Schedule M-6

Finland Retail Price Increases

Marlboro Red Soft (FIM per 000)	Base Price (12/31/89)	Increases 1990	1991	1992	Ending Price (12/31/92)
Manufacturer	100.35	6.11	7.72	8.49	122.67
Taxes	441.09	37.91	34.71	38.18	551.89
Distribution/Trade	98.56	5.97	7.58	8.33	120.44
Total Price Increase		50.00	50.00	55.00	
Date of Increase		January	January	January	
Ending Retail Price					
FIM per 000	640.00	690.00	740.00	795.00	795.00
FIM per pack	12.80	13.80	14.80	15.90	15.90

Marginal Contribution

Profit Share FIM/000	27.23	28.47	31.50	33.28
Profit Share US$/000	6.33	6.47	7.16	7.56
Royalties US$/000	0.60	0.60	0.60	1.20
Supplies US$/000	2.52	2.76	2.94	3.15
Total Marginal Contribution US$/000	$9.45	$9.83	$10.70	$11.91
Exchange Rate US$ = FIM	4.30	4.40	4.40	4.40
Local Inflation Rate	6.0%	6.0%	6.0%	6.0%

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SAUDI ARABIA

B4. **SAUDI ARABIA OBJECTIVES**

		LE 1989	OB 1990	1991	1992	%CAG LE1989 -1992
Unit Volume	(mio)	5,175	5,138	5,419	5,127	-0.3%
Income from Operations	($mio)	$43.9	$38.4	$38.8	$41.3	-2.0%
Market Share	(%)	38.3%	39.5%	40.7%	39.0%	+0.7pts
Total Market Size	(mio)	13,600	13,000	13,325	13,150	-1.1%

MARKET OVERVIEW

Following the duty-driven retail price increases in 1985, the Saudi market plummeted severely, bottoming out only in 1987. Consumer demand continues to recover, with the total market expanding 3.5% in both 1988 and 1989. The unit volume and market share declines for the premium segment persist, but at a slower pace.

The next increase in the import duty rate from 30% to 50% is still expected imminently; for conservative purposes, we have assumed a January 1, 1990 implementation, including the rise in the minimum specific duty from SR 150 to SR 400 per case. We expect manufacturers and distributors to absorb most of the duty increase for premium products. Retail price increases in the other price segments will cause a severe market contraction, especially in the low price segment. Volume gains in the cheap segment will continue, as consumers trade down.

However, the pace at which consumers trade down will slow as the price differential between the premium and the cheap segment narrows. Retail prices in the premium segment will move from SR 32 per carton today to SR 33 in 1990, and hold at that level through 1991. Retail prices in the cheap segment will rise from SR 14 for a carton of Gold Coast today, to SR 20 by mid 1990 and to SR 21 in 1991. Gold Coast will then sell at 64% of the Marlboro retail price, versus 43% today.

With the market finally reaching equilibrium following the 1985 price shock, the impact of next year's SR 1 increase in the premium segment will be limited. Recovery will begin in 1991, when we foresee actual growth for the premium segment in volume terms.

With the move to SR 37 per carton in 1992, there will be a renewal in trading down, reinforced by the widening price differential between premium and cheap products. Gold Coast and L&M carton prices are foreseen to rise SR 2 to SR 23 in 1992, versus the SR 4 rise planned for Marlboro. With Rothmans King Size expected to hold price at SR 33, we will also be threatened by trading down within the premium segment. In total, the premium segment's share of market will decline from 46.3% in 1989 to 42.8% in 1992.

PM's share of the premium segment will rise, from 68.9% today to 70.2% in 1992, and our total market share will be 39.0% compared with 38.3% in 1989. Our market share in terms of consumer expenditures is approximately 45% today.

Rothmans will continue to be the big loser in Saudi, due to the inherent decline in RKS's appeal, aggravated by the demise of the 25s variant, and the continuing erosion of the above premium price segment, which is 100% RI territory. The volume RKS will gain by holding price in 1992 will enable the brand to slow its decline in market share, but will not be sufficient to arrest the continuing decline in the brand's unit volume. This will leave Rothmans with a total volume of only 1.3 billion units in 1992 and a market share of 9.8%. RI held a share of over 20% as recently as 1987.

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With the pricing disruption in the cheap segment and RJR's limited base in the upper price segments, its total market share will be contained to 20.8%. The continuing shift in their brand mix from premium to cheap brands will have an adverse impact on their overall profitability. Indeed, there are now concrete indications that the RJR strategy is backfiring. Growth of the franchise has stalled; in particular the Gold Coast Red share is actually down, while the L&M franchise shows solid market potential. Their use of consignment stock and easier credit terms has reportedly resulted in extensive bad debts, and questions the overall profitability of the Gold Coast strategy for RJR.

BAT/B&W will fare slightly better due to Players Gold Leaf, and Wills Gold Flake will add some low margin volume for BAT in the cheap segment.

Consumers will continue to move towards LTN and SLTN products, with the full flavor segment losing 2.4 share points over the Plan period, to represent 76.4% of the market in 1992. The LTN segment will pick up 1.9 share points over the three years to reach 18.6% share in 1992.

The demand for SLTN products will grow at 2.8% per annum, to reach 5.1% of the market by the end of the Plan period. The underlying growth for SLTN products, combined with their ability to command a premium price represents a growth opportunity in the market. In addition, the November 1989 change in Barclay's printed numbers from 1 mg. to 5 mg. tar will cause a disruption in the segment which we intend to exploit.

<u>ISSUES, OBJECTIVES AND ACTIONS</u>

<u>MARLBORO</u> - Marlboro Red's volume is proving resilient, even with the shift towards low tar products and the trading down of price sensitive consumers.

To contain the trading down phenomenon, we will limit the immediate post-duty increase retail price for Marlboro to SR 33 per carton. We will raise the carton price to SR 37 in 1992 at which time, our pack price will move to SR 4.00 from SR 3.50 today. To raise in-store presence, we will increase investment at point of purchase, improve awareness in key supermarkets through annual shelving rental agreements, and expand trade incentives to motivate correct distribution and stocking. Upgraded fieldforces are a pre-requisite and we are encouraged by our distributors' recent steps to achieve this. We will also maintain share of advertising voice in line with our market share objectives. In 1992, the Marlboro family will hold 67.3% of the premium segment.

With the reported adoption by SASO of sampling tolerances for use in cigarette testing, we will consider increasing the average delivery levels to those of the maximum proscribed (12 mg./0.8 mg.). On the product side for Marlboro Lights, we have lowered the printed numbers from 10 mg. tar/0.8 mg. nicotine to 9/0.7 mg., in order to reinforce the product's LTN distinctiveness vis-a-vis Marlboro Red.

The downtrading of above premium SLTN smokers is expected to benefit Marlboro Lights, as will Barclay's discontinued use of the 1 mg. claim. We are also planning a 1991 launch of Marlboro Ultralights, which will further exploit the disruption in the SLTN segment. The brand will gain immediate recognition and trial due to the prestige and acceptance of the parent brand.

While we fully intend to fight Gold Coast in the market place, we have taken legal recourse on the basis of trademark infringement. The Resemblance Committee under the Finance Department in the Ministry of Commerce has reviewed our complaint regarding the current packaging design of Gold Coast. Their decision, which must be considered as final, was taken October 30 and

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will be released publicly once the Minister of Commerce formally approves the Resemblance Committee's resolution. Our legal action in Saudi is the centerpiece of the coordinated set of oppositions which have also been undertaken in Switzerland, Bahrain, Kuwait and Qatar.

OTHER PREMIUM PRODUCTS - For Merit, we intend to reinvigorate the family by restoring share growth for Merit Ultra and stabilizing Merit Regular. Merit Ultra's deliveries are being reduced to 4 and 0.4 mg. this year to obtain a competitive advantage against Barclay at 5 and 0.5 mg. We will design our POSM to emphasize the new tar and nicotine numbers. Above the line spending will be directed to Merit Ultra. We will focus our distribution on those outlets with proven Merit sales, and use the Brand Display Award to improve merchandising for the family.

We will launch Merit De Nic in 1990, and will communicate the unique selling proposition heavily. This line extension will appeal to the health-conscious smoker, in particular, and will reinforce the image of the entire family.

To increase the awareness of Philip Morris Superlights, we will install high quality prestigious POS material, like the space shuttle dispensers, and will use carton sleeves extensively. We will maintain the use of "gift box" sampling throughout 1990 and use gondola displays as a sampling base. Our targeted outlets will include tobacconists, hotels, and cigarette shops within major supermarkets and airport shops. We also intend to reinforce the advertising campaign by including a lifestyle theme.

L&M - L&M Regular and Lights are gaining consumer acceptance as credible offerings, competing directly against Gold Coast and helping to limit Gold Coast's share. While our marketing focus will be centered on our premium brands, we intend to develop the L&M franchise in order to gain leverage against RJR with respect to pricing. We will emphasize the "Made in the USA" advantage in advertisements in Sharq Awsat, a Saudi newspaper, and in our temporary POSM, merchandising next to Gold Coast. The distributor's margin will be improved with the next price increase to ensure the support that the brand deserves. We will strive to achieve the use of incentives linked to volume loading to motivate the wholesale channel and thus to extend our reach to the rural areas, today a Gold Coast stronghold. On-carton offers will be run selectively, during key drive periods. We will also utilize switch-selling and sampling campaigns via the salesforces.

OTHER VALUE BRANDS

Visa will be used to bring further clout to our position in the cheap segment in order to contest Gold Coast. POSM will emphasize Visa's price advantage over Gold Coast, including price flags and carton stickers.

As an extension of our strategy, we will strive to obtain an exclusive license agreement with the Jordanian Tobacco Company for a secondary brand, such as Congress, exploiting the Jordanian/Saudi trade agreement which provides for duty free imports into Saudi ex-Jordan.

DISTRIBUTOR RELATIONSHIPS - Our distributors' performance has improved over the last two years, and we are confident that further improvements will be achieved. Our objective is to persuade our distributors to actively support our entire portfolio, including cheap brands and to work to agreed performance standards for salesforce management and motivation; salesforce organization and training; call coverage plans; programs to correct OOS; consumer contact campaigns; and stock control.

In Saudi West, the Sales/Merchandising force of 44 today, will expand to 50 persons by 1990, and will comprise 9 merchandisers and 41 salesmen.

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Similarly, the sales/merchandising force in Saudi East will grow from 44 today to 52, with the planned hiring of 5 more merchandisers and 3 additional supervisors, with our distributor firmly convinced of the benefit of doing so.

Building up our program of professional and well-targeted training seminars will be a fundamental element of our plan, and this has already started. In order to enhance the results-oriented salesforce targets, we have agreed that each of our distributors implement salesforce incentive programs, where each program is linked to individual brands. To facilitate the job of gaining in-store support and better product visibility, we are periodically running linked salesforce/trade incentive drives, such as the Brand Display Award. Upgraded in-store shelving programs, already underway, will be expanded. We will use OOS information to identify outlets which warrant corrective stocking action.

PRICING - With the price sensitivity of the Saudi market well-established, we have chosen to limit the near-term impact of the higher duty on our retail prices by absorbing jointly with our distributors most of the duty effect for our premium brands; we will pass on the duty for value brands to the consumer. In 1992, we will raise the price of our premium brands. Consequently the net FAS price for Marlboro and Merit will move from today's $24/000 to $22.60/000 as of January 1, 1990 and to $24.70/000 in January 1992.

TAXATION - Our primary objective remains to effect a delay in the threatened change in the customs duties from 30% to 50% of CIF value for as long as possible, and to ensure that the authorities follow through on the adoption of the SR 400 per case specific minimum when the 50% duty rate is eventually implemented.

The lack of agreement within the Council of Rulers of the United Arab Emirates precludes the consensus sought by the GCC as a prerequisite for implementing the duty rate increase. In addition to creating delays in the duty rate increase, this situation has provided us with greater opportunity to pursue our auxiliary objective of generating wider acceptance of the principle of a high minimum specific duty.

In parallel, we are pursuing the near term objective to raise the specific minimum designated under the 30% duty rate from SR 150 per case to SR 240 per case. This would essentially subject all brands with CIF values below Rothmans to the specific duty and would result in a slight compression of the premium to value brand price differential, thus reducing some of the competitive advantage held today by value brands. Our ultimate objective is to work towards the adoption of a fully specific duty for cigarettes, and to avert any further increase in tax incidence.

Please refer to the Corporate Affairs Section for a more thorough discussion of taxation, MCLs, cigarette testing methodology and tolerances, etc.

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SAUDI ARABIA

MAJOR UPSIDE/DOWNSIDE TO 1992 INCOME

UPSIDE

Throughout the Plan period, there is no increase in import duties above the current level. Nevertheless, there is a general industry move to raise prices in the cheap segment, with L&M and Gold Coast going to SR 18/carton and Visa to SR 16. The principal impact is on the premium price segment. Due to less trading down, the unit volume in the premium segment rises, with Marlboro the main beneficiary. Due to the lower price of SR 33/carton, Marlboro achieves a 1992 market share of 31.6%, versus the 28.9% assumed in the Plan; 1992 volume is higher by 695 million units.

DOWNSIDE

The market is more depressed than foreseen, due to greater than anticipated price sensitivity. The total market size falls from 13,325 million units in 1991 to 12,900 million in 1992, versus the 13,150 million assumed in the Plan. The share of the cheap segment is larger than foreseen, as consumers in the premium segment either reduce consumption, or trade down. PM's market share drops to 38% versus the 39% assumed in the Plan. The impact on PM is a loss of $2.9 million versus the Plan.

		1992		
		DOWN	BASE	UP
Total PM Volume	(mio)	4902	5127	5835
Available profit	($ mio)	$50.8	$53.7	$63.5
Variance from Base	($ mio)	($2.9)		+$9.8

(Should PM hold the price of its premium brands in 1992, market share would reach 42.2% and available profit would be $2.4 million less than the Base Case.)

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Schedule M-1

SAUDI ARABIA TOTAL - INCOME STATEMENT

(US $ 000)

	LE 1989	OB 1990	1991	1992	CAG % LE89-92
UNIT VOLUME (millions)	5,175	5,138	5,419	5,127	-0.3%
TOTAL OPERATING REVENUES	$109,200	$104,721	$111,270	$113,532	1.3%
Standard variable cost	39,300	41,066	44,892	44,537	4.3%
Standard cost deviations	-	1,054	1,108	1,039	N/A
LIFO Adjustment	300	231	244	227	-8.9%
MARGINAL CONTRIBUTION	$69,600	62,370	65,026	67,729	-0.9%
Advertising	8,700	8,427	8,946	9,148	1.7%
Sales and promotional allowances	-	-	-	-	N/A
NET CONTRIBUTION	$60,900	53,943	56,080	58,581	-1.3%
Local overheads	700	771	848	900	8.7%
Other indirect marketing	800	710	770	800	0.0%
NET CONTROLLABLE MARGIN	$59,400	52,462	54,462	56,881	-1.4%
Area overheads	2,700	1,058	1,208	1,205	-23.6%
Fixed manufacturing expenses	12,300	12,672	14,148	14,021	4.5%
General & administrative	500	332	312	339	-12.1%
INCOME FROM OPERATIONS	$43,900	$38,400	$38,793	$41,316	-2.0%
Local Inflation Rate	1.1%	1.6%	3.8%	3.6%	
Exchange Rate USD=SR	3.75	3.75	3.75	3.75	

2500066201

Schedule M-1A

SAUDI ARABIA TOTAL - INCOME STATEMENT

(US $ per thousand)

	LE 1989	OB 1990	1991	1992	CAG % LE89-92
UNIT VOLUME (millions)	5,175	5,138	5,419	5,127	-0.3%
TOTAL OPERATING REVENUES	$21.10	$20.38	$20.53	$22.14	1.6%
Standard variable cost	7.59	7.99	8.28	8.69	4.6%
Standard cost deviations	-	0.21	0.20	0.20	N/A
LIFO Adjustment	0.06	0.04	0.05	0.04	-8.6%
MARGINAL CONTRIBUTION	$13.45	$12.14	$12.00	$13.21	-0.6%
Advertising	1.68	1.64	1.65	1.78	2.0%
Sales and promotional allowances	-	-	-	-	N/A
NET CONTRIBUTION	$11.77	$10.50	$10.35	$11.43	-1.0%
Local overheads	0.14	0.15	0.16	0.18	9.1%
Other indirect marketing	0.15	0.14	0.14	0.16	0.3%
NET CONTROLLABLE MARGIN	$11.48	$10.21	$10.05	$11.09	-1.1%
Area overheads	0.52	0.21	0.22	0.24	-23.3%
Fixed manufacturing expenses	2.38	2.47	2.61	2.73	4.8%
General & administrative	0.10	0.06	0.06	0.07	-11.9%
INCOME FROM OPERATIONS	$8.48	$7.47	$7.16	$8.06	-1.7%
Local Inflation Rate	1.1%	1.6%	3.8%	3.6%	
Exchange Rate USD=SR	3.75	3.75	3.75	3.75	

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SAUDI ARABIA

COMPARISON WITH LAST YEAR'S PLAN

(US $ millions)

	1990-1992 Three Year Plan			Last Year's Plan			Fav./(Unfav.)		
	1989 LE	1990 OB	1991	1989	1990	1991	1989 LE	1990 OB	1991
UNIT VOLUME (millions)	5,175	5,138	5,419	5,207	5,063	5,394	(32)	75	25
TOTAL OPERATING REVENUES	$109.2	$104.7	$111.3	$113.2	$108.4	$116.4	($4.0)	($3.7)	($5.1)
MARGINAL CONTRIBUTION	69.6	62.4	65.0	72.3	66.8	69.8	(2.7)	(4.4)	(4.8)
F.M.E.	12.3	12.7	14.2	11.5	11.3	12.3	(0.8)	(1.4)	(1.9)
Direct Marketing	8.7	8.4	8.9	9.3	10.9	11.2	0.6	2.5	2.3
Indirect Marketing	4.2	2.6	2.8	4.9	5.7	5.7	0.7	3.1	2.9
G. & A.	0.5	0.3	0.3	0.6	0.6	0.6	0.1	0.3	0.3
Total Expenses	25.7	24.0	26.2	26.3	28.5	29.8	0.6	4.5	3.6
INCOME FROM OPERATIONS	$43.9	$38.4	$38.8	$46.0	$38.3	$40.0	($2.1)	$0.1	($1.2)

SAUDI ARABIA: SUMMARY OF 1987, 1988, 1989 AND 1990 PLANS

Market Share (%)	1986	1987	1988	1989	1990	1991	1992	Plan Period Growth
1987 Plan	35.0	40.2	43.3	45.2	-	-	-	10.2 pts
1988 Plan	-	40.4	42.4	44.0	45.2	-	-	4.8
1989 Plan	-	-	40.1	41.0	42.2	44.2	-	4.1
1990 Plan	-	-	-	38.3 LE	39.5	40.7	39.0	0.7
Actual	36.7	39.7	38.9	38.3 LE				
PM Unit Volume (millions)								
1987 Plan	4,900	5,100	5,355	5,491	-	-	-	3.9 % CAG
1988 Plan	-	5,053	4,920	5,152	5,375	-	-	2.1
1989 Plan	-	-	5,250	5,207	5,063	5,394	-	0.9
1990 Plan	-	-	-	5,175 LE	5,138	5,419	5,127	(0.3)
Actual	4,948	5,288	4,921	5,175 LE				
Income from Operations ($ millions)								
1987 Plan	60.7	61.1	59.8	77.2	-	-	-	8.3 % CAG
1988 Plan	-	56.5	54.4	55.9	58.1	-	-	0.9
1989 Plan	-	-	45.1	46.1	38.3	40.0	-	(3.9)
1990 Plan	-	-	-	43.9 LE	38.4	38.8	41.3	(2.0)
Actual	61.6	53.9	44.9	43.9 LE				

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Saudi Arabia competitor profile

1. Market Share

(%)

	1987	1988	LE 1989	OB 1990	1991	1992
Philip Morris	39.7	38.9	38.3	39.5	40.7	39.0
Rothmans	20.5	15.1	13.0	11.2	9.9	9.7
BAT & B&W	13.0	13.2	15.8	16.7	16.9	17.6
RJ Reynolds	11.8	18.5	19.4	19.8	19.7	20.8
Gallaher	2.1	1.8	1.3	1.1	1.0	0.8
London	4.3	4.0	3.1	2.9	2.6	2.6
Eastern	2.2	2.1	2.1	1.8	1.8	1.8
Others	6.4	6.4	7.0	7.0	7.5	7.7
Total Market	100.0	100.0	100.0	100.0	100.0	100.0

2. Domestic Unit Volume

(billions)

	1987	1988	LE 1989	OB 1990	1991	1992
Philip Morris	5.04	5.11	5.21	5.14	5.42	5.13
Rothmans	2.60	1.98	1.77	1.46	1.33	1.28
BAT & B&W	1.65	1.73	2.15	2.17	2.25	2.32
RJ Reynolds	1.50	2.43	2.64	2.57	2.62	2.73
Gallaher	0.27	0.24	0.18	0.14	0.13	0.10
London	0.54	0.52	0.422	0.377	0.345	0.34
Eastern	0.28	0.27	0.29	0.23	0.24	0.24
Others	0.82	0.85	0.95	0.91	1.00	1.01
Total Market	12.70	13.14	13.60	13.00	13.33	13.15

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Schedule M-4

SAUDI ARABIA - BRAND MIX

	UNIT VOLUME - SHIPMENTS (MIO)				CAG	MARKET SHARES (%)				CHANGE
	1989 LE	1990 OB	1991	1992	89-92	1989 LE	1990 OB	1991	1992	89-92
										pts
MARLBORO RED BOX	2,924	2,911	3,010	2,663	-3.1%	21.8	22.4	22.6	20.3	(1.5)
MARLBORO RED SOFT	149	130	118	100	-12.4%	1.1	1.0	0.9	0.8	(0.3)
MARLBORO RED 100 BOX	27	25	22	19	-11.1%	0.2	0.2	0.2	0.1	(0.1)
MARLBORO RED 100 SOFT	108	80	75	64	-16.0%	0.8	0.6	0.6	0.5	(0.3)
SUB TOTAL MARLBORO RED	3,208	3,146	3,225	2,846	-3.9%	23.9	24.2	24.2	21.6	(2.3)
MARLBORO LIGHTS BOX	885	919	935	822	-2.4%	6.5	7.1	7.0	6.3	(0.2)
MARLBORO LIGHTS SOFT	27	20	29	26	-1.3%	0.2	0.2	0.2	0.2	(0.0)
MARLBORO LIGHTS 100 BOX	14	5	4	3	-40.2%	0.1	0.0	0.0	0.0	(0.1)
MARLBORO LIGHTS 100 SOFT	14	5	5	4	-34.1%	0.1	0.0	0.0	0.0	(0.1)
SUB TOTAL MARLBORO LIGHTS	940	949	973	855	-3.1%	6.9	7.3	7.3	6.5	(0.4)
MARLBORO ULTRALIGHTS	0	0	53	86	N/A	0.0	0.0	0.4	0.7	0.7
TOTAL MARLBORO	4,148	4,095	4,251	3,787	-3.0%	30.8	31.5	31.9	28.8	(2.0)
PM SUPERLIGHTS BOX	10	20	27	26	37.5%	0.1	0.2	0.2	0.2	0.1
MERIT DE NIC	0	29	40	55	N/A	0.0	0.2	0.3	0.4	0.4
MERIT KS BOX	41	22	20	12	-33.2%	0.3	0.2	0.2	0.1	(0.2)
MERIT 100 SOFT	0	4	3	3	N/A	0.0	0.0	0.0	0.0	0.0
MERIT ULTRA LIGHTS BOX	109	82	77	66	-15.2%	0.8	0.6	0.6	0.5	(0.3)
TOTAL MERIT	150	137	140	137	-3.0%	1.1	1.1	1.1	1.0	(0.1)
L & M BOX	92	196	254	335	53.8%	0.5	1.5	1.9	2.5	2.0
L & M LIGHTS SOFT	27	130	183	237	106.3%	0.2	1.0	1.4	1.8	1.6
L & M MENTHOL 100 SOFT	81	60	48	36	-23.7%	0.6	0.5	0.4	0.3	(0.3)
TOTAL L & M	200	386	485	608	44.9%	1.3	3.0	3.6	4.6	3.3
LARK BOX	5	6	5	4	-7.2%	0.1	0.0	0.0	0.0	(0.0)
MARBLE ARCH BOX	7	0	0	0	-100.0%	0.1	0.0	0.0	0.0	(0.1)
VISA BOX	575	455	470	515	-3.6%	4.3	3.5	3.5	3.9	(0.4)
VISA LIGHTS BOX	80	39	41	50	-14.5%	0.6	0.3	0.3	0.4	(0.2)
TOTAL VISA	655	494	511	565	-4.8%	4.9	3.8	3.8	4.3	(0.6)
TOTAL PM	5,175	5,138	5,419	5,127	-0.3%	38.3	39.5	40.7	39.0	0.7
TOTAL MARKET	13,600	13,000	13,325	13,150	-1.1%	100.0	100.0	100.0	100.0	0.0

Note: PM unit volumes reflect shipments. Market shares reflect in market sales.
From OB and forward, shipments are assumed to equal in market sales.

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Schedule M-6

Saudi Arabia Retail Price Increases

Marlboro Red Box (SR per 000)	Base Price (12/31/89)	Increases 1990	1991	1992	Ending Price (12/31/92)
Manufacturer	90.00	(5.25)	0.00	7.87	92.63
Freight and Insurance	1.76	(0.01)	0.00	0.02	1.77
Taxes	31.32	15.59	0.00	4.14	51.05
Distribution/Trade	36.92	(5.33)	0.00	7.97	39.55
Total Price Increase	160.00	5.00	0.00	20.00	185.00
Date of Increase		January		January	

NOTE: Sharing of price increase is based on carton margins.

Ending Retail Price				
SR per 000	160.00	165.00	165.00	185.00
SR per carton	32.00	33.00	33.00	37.00
SR per pack	3.50	3.50	3.50	4.00
Marginal Contribution				
US$ per 000	$16.70	$14.82	$14.52	$16.31
FAS (US Exports)	24.00	22.60	22.60	24.70
Exchange Rate				
US$ = SR	3.75	3.75	3.75	3.75
Local Inflation	1.1%	1.6%	3.8%	3.6%

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SAUDI ARABIA - Competitive Retail Prices (1989-1992)
LRP Assumptions

(SR/Carton)	Company	Current Price Category	End 1989	OB 1990	1991	1992
Marlboro	PM	PP	32	33	33	37
Merit	PM	PP	32	33	33	37
PMSL	PM	PP	32	33	33	37
L&M Menthol/Lark	PM	MI	23	27	27	32
L&M	PM	CH	13	18/20	21	23
Visa	PM	CH	10	16/18	18	20
Benson & Hedges	BAT	PP	32	33	33	33
State Express 555	BAT	BP	27	28	28	28
Players Gold Leaf	BAT	LO	17	21	21	23
Barclay	B&W	PP	32	33	33	37
Kent	B&W	BP	28	28	28	28
Viceroy	B&W	LO	17	21	21	23
Kamaran	EASTERN	BP	25	28	28	32
Carlton	GALLAHER	PP	32	33	33	37
Silk Cut	GALLAHER	PP	32	33	33	33
Winston	RJR	PP	32	33	33	37
Gold Coast	RJR	CH	14	18/20	21	23
Monte Carlo	RJR	CH	10	16/18	18	20
London	ST. PAULS	CH	13	18/20	21	23
Cartier	TEI	AP	35	36	36	37
Dunhill	TEI	PP	32	33	33	33
Rothmans KS	TEI	PP	32	33	33	33
Rothmans 25's	TEI	BP	36	-	-	-

ALTERNATIVE SCENARIO - NO TAX INCREASE DURING PLAN PERIOD

(SR/Carton)	Company	Price Category	End 1989	1990	1991	1992
Marlboro	PM	PP	32	33	33	33
Merit	PM	PP	32	33	33	33
PMSL	PM	PP	32	33	33	33
L&M Menthol/Lark	PM	MI	23	23	23	23
L&M	PM	CH	13	16	18	18
Visa	PM	CH	10	13	13	13
Benson & Hedges	BAT	PP	32	33	33	33
State Express 555	BAT	BP	27	28	28	28
Players Gold Leaf	BAT	LO	17	18	18	18
Barclay	B&W	PP	32	33	33	33
Kent	B&W	BP	28	28	28	28
Viceroy	B&W	LO	17	18	18	18
Kamaran	EASTERN	BP	25	28	28	28
Carlton	GALLAHER	PP	32	33	33	33
Silk Cut	GALLAHER	PP	32	33	33	33
Winston	RJR	PP	32	33	33	33
Gold Coast	RJR	CH	14	16	18	18
Monte Carlo	RJR	CH	10	13	16	16
London	ST. PAULS	CH	13	16	18	18
Cartier	TEI	AP	35	36	36	36
Dunhill	TEI	PP	32	33	33	33
Rothmans KS	TEI	PP	32	33	33	33
Rothmans 25's	TEI	BP	36	-	-	-

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KUWAIT

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B5. **KUWAIT**

OBJECTIVES		LE 1989	OB 1990	1991	1992	%CAG LE1989 -1992
Unit Volume	(mio)	1,385	1,238	1,247	1,280	-2.6%
Income from Operations	($mio)	$16.7	$14.1	$14.3	$13.8	-6.1%
Market Share	(%)	45.3%	44.2%	46.5%	47.8%	+2.5pts
Total Market Size	(mio)	2,920	2,800	2,680	2,680	-2.8%

MARKET OVERVIEW

Gross Domestic product per capita in Kuwait is approximately twice that of Saudi Arabia, with the overall economic outlook generally more positive. A firmer oil market, coupled with higher oil production, the consolidation of the cease-fire and the resolution of the Iran-Iraq conflict will reinforce this growth.

With 60% of the resident population and over 80% of the workforce comprising foreigners, expatriates will remain a significant portion of our consumer base. There are in fact, signals that the number of expatriates is actually increasing, even with the advent of Kuwaitiization.

We are seeing the impact of the continuing economic recovery in higher than expected total market size, combined with the slower development of the low price segment. By way of comparison, the low price segment in 1989 represents 16% of the Kuwaiti market, versus a share of 43% in Saudi for the combined low and cheap segments.

Consequently, we are reasonably optimistic that the impact of the 1990 jump from 30% to 50% in customs duties offset in part by our pricing decisions, will be limited to a drop of less than 5% in the total market size. With all carton prices slated to rise by 200-300 fils, we will however see an accelerated restructuring of the market towards the low end, which will expand by 100 million units as price sensitive consumers trade down.

In 1991 the entire market is expected to move up another 200 fils per carton, as the Saudi-type minimum specific duty will be introduced; this will cause additional trading down. With no price increase foreseen for 1992, the market size and price segmentation will stabilize.

Over the three year plan period, the premium priced segment will lose just over 7 share points to settle at 58% of the total market. Conversely, the low price segment will gain 7 share points to reach 23%.

In addition to the trading down of price sensitive consumers, the major trends in the market will be the growing preference for US blend products at the expense of Virginia brands, and the gradual shift from full flavor products to light and superlight offerings. The UK segment will drop to a share position of 28% by 1992, versus nearly half of the market just five years ago, and one-third of the market today. US blend products will hold nearly 64% of the market in 1992 versus 59% today. The full flavor segment, which will lose 3 share points, will still command 80% of the market in 1992. LTN products will gain 1 share point to reach 13% of the market, while the SLTN segment will pick up 2 points to reach 7% in 1992.

The anti-smoking movement remains very active, with Kuwait a leader in the GCC. Restrictions in promotional activity, outdoor advertising and smoking in public areas are already in place. Tighter restrictions should be anticipated, such as a full ban on in-store promotions and a possible ban on advertising in the media. Further reductions in MCLs and adding month of manufacture to the year-date code as well as a declaration of constituents

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are also possible. On the positive side, the banning of 25s packaging has been achieved and B&W has already been ordered by the authorities to cease their importation of Barclay with the 1 mg. tar declaration. Printed numbers of 5/0.5 mg. are now required and old stock is being pulled out of the market. Both these actions benefit PM.

Like PM, the other manufacturers have begun to prepare for the duty hit. There has been an acceleration this year in the launch of cheaper products, such as RJR's Montecarlo and Monroe in the low segment. In addition to trying to establish a stronger position with Gold Coast, also in the low segment, RJR's distributor has taken a series of expansion steps which will likely result in RJR's achieving a separate merchandizing team, if not a full salesforce for its brands.

From a competitive standpoint, Rothmans will be the hardest hit, losing 6 share points and 210 million in unit volume by 1992. BAT will suffer to a lesser extent, to drop 1 share point and approximately 75 million units in volume.

Given our current dominance of the premium segment, together with the momentum of Marlboro and the growing appeal of Merit, PM will command 73% of the segment by 1992, versus 65% today. The growing L&M franchise will enable us to establish a strong position in the Below Premium Price Segment, while Congress and Visa will fight with Gold Coast, Viceroy and Cleopatra for the price sensitive smoker. Today PM's market share of 45.3% translates into a 52% share in retail sales terms.

RJR's reliance on Gold Coast will limit its future market potential to the bottom of the market. By 1992 over 80% of RJR's product portfolio will be in the low segment, compared with only 3% for Philip Morris.

PM and RJR will be the only manufacturers to gain market share over the Plan period. PM will pick up 2.5 points to reach 47.8% of the market. The 3 point gain for RJR will still leave them with a relatively minor share of 7.6% of the market in 1992.

ISSUES, OBJECTIVES & ACTIONS

MARLBORO - In addition to containing the post-duty hike retail price, we will give Marlboro the number one priority in terms of merchandising and share of voice. We will maintain high media advertising, ensuring that Marlboro Red and Marlboro Lights have the highest share of voice in their respective segments.

We will continue to reduce out-of-stocks in the trade through the introduction of a systematic merchandising and training program, as well as targeted journey plans for the salesforce and the merchandising team. We will increase promotional activity, concentrating on Marlboro's high profile image in motor sports with Formula 1 and rallying, and in western heritage using the successful Marlboro Horseman Award. We will also exploit Pan-Arab and Pan-Gulf media competitions and carton sleeve communications.

Exploiting the growth in our shelving program, we will increase pack and carton facings, while placement of our Marlboro branded pack masters will be extended to hotels and B&C outlets. In addition, we have struck an agreement with the Kuwaiti Airline Corporation for their distribution of Marlboro King Size samples and use of branded plastic bags.

On the product side, we will evaluate foil overwrap for Marlboro Lights Box, depending on the outcome of the market test in Bahrain. In line with Saudi, we will be launching Marlboro Ultralights in 1991.

OTHER PREMIUM PRODUCTS - We expect the Merit family's strength to come increasingly from Merit Ultra, as a number of Merit smokers switch to the lower tar offering. At the time of the change in Barclay's printed deliveries from 1 mg. to 5 mg. tar, we will exploit Merit Ultra's greater popularity to our advantage. Merit Ultra has a premium segment share of 2.6% versus Barclay's 2.3%. In April 1990, we will switch Merit Ultra to 4/0.4 mg tar and nicotine (versus 5 and 0.5 mg. today), in order to gain a product advantage, and will communicate this heavily in our anti-Barclay promotional campaigns and switch-selling activities.

We are planning to launch in 1991 Merit De Nic, an SLTN offering with a unique selling proposition. Until that time, our Merit family advertising and promotions will concentrate on Merit Ultra. We will use the new sea theme in media and in-store promotional activities, and plan our burst media advertising to coincide with our in-market activities, such as instant win promotions like pack puzzles and decoder boards. We will reinforce our advertising theme with Beach Club weekend activities and support for power boat racing.

To accelerate the takeoff of PMSL, we will use extensive in-store promotions, like Match the Shuttle and Match the Continent, supported by a shift in marketing spend from above the line to below the line. We will focus POSM placement in A-Class outlets, hotels and tobacconists to increase visibility, and undertake sampling and switch-selling activities, both in-store and in hotel lobbies.

We are also planning to launch Parliament KS Box during 1990 as a test-market for the GCC, with a full launch in Kuwait in 1991.

BELOW PREMIUM PRODUCTS - L&M Lights was launched in March 1989 to join L&M Regular in the BPP segment. Continuing the success achieved to date with L&M, our share of the BPP segment is slated to rise from 26.7% in 1989 to 37.3% in 1992.

As soon as possible, Congress will join Visa in the low price segment to contest Viceroy and Gold Coast; the Plan assumes a 1991 launch. Congress and Visa are priced at the Gold Coast price, 200 fils per carton below Viceroy and Cleopatra.

These brands are intended to prevent Gold Coast from being able to repeat the explosive growth achieved in Saudi and for PM to share in picking up volume from those consumers who will choose to trade down as retail prices rise. Thus our share of the low segment will grow from virtually zero a year ago to 6% in 1992.

TAXATION - As in Saudi, our immediate objective is to delay the increase in customs duties from 30% to 50% of CIF value for as long as possible. Our second objective is to effect the introduction of a Saudi-type minimum specific duty, where KD 18.000 per case is the target level under a 30% duty regime and KD 30.000 per case under the 50% regime. The Plan assumes 50% by January 1, 1990, with the implementation of the minimum duty of KD 30.000 per case as of 1991. Building on the May 1989 resolution of the AGSHMC advocating a Saudi-type minimum specific duty, we are trying to secure its local endorsement by the Ministers of Health, Planning and Commerce in order to promote its final acceptance by the Kuwaiti cabinet. The ultimate objective is to achieve a fully specific duty.

PRICING - To minimize the impact of the duty hike on the retail selling prices of our premium brands, we will reduce our invoice price from $26.70/000 today to $24.70/000 in 1990. We will raise our price by $1.20/000 in 1991 to $25.90, and stay at that level through the remainder of the Plan period.

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Our distributor is also expected to invest in the business by introducing a contribution to our local marketing activities, equal to $2.00/000. Although this is budgeted for 1990, we have not yet secured our distributor's full endorsement. In addition, the depreciation of the Kuwaiti Dinar against the US dollar is generating pressure on the PM distributor to raise his prices. The alternative pricing strategy which we are currently considering is to lower our invoice price $1/000 to $25.70, and subsequently rediscuss with our distributor the marketing contribution issue.

By way of comparison, our Plan assumes that the net selling price for Visa would move from today's $12.80/000 to $12.44 in 1990 and $13.84 in 1991.

DISTRIBUTOR RELATIONSHIPS - We have been successful in gaining some significant improvements and a number of firsts. We have achieved the use of salesforce/trade incentive programs, the introduction of in-store advertising and participation in shelving rental agreements. Building on this momentum, we have reached agreement that each distributor add three persons to his salesforce to extend call coverage and the scope of in-store activities. Today, our main distributor's salesforce totals 12 persons; our Liggett distributor has 6 people.

Our PM-distributor was motivated by the positive outcome of the incentive program to actually form a separate merchandising team within the salesforce to cover all Cooperatives, Cooperative branches and all independent supermarkets.

We plan to increase the number of merchandising drives, and expand the use of salesforce/trade incentives. Upgrading of our headerboards is underway, and we will increase the global amount of shelving in the rental program. Our intention is to increase the number of rental sites as well as the amount of shelving per location and so ensure adequate space for our planned product launches as well as increasing exposure for our existing brands. We will also increase the number of fully branded pack masters, check out counter units, and gondola ends. Salesforce supervision and training is also key and we are working with our distributors on both fronts.

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MAJOR UPSIDE/DOWNSIDE TO 1992 INCOME

UPSIDE There is no increase in import duties above the current level throughout the Plan period. Accordingly, retail prices are lower (Marlboro at KD 2.80/ carton instead of KD 3.00); and the market reaches 2.9 billion units instead of 2.68 billion.

DOWNSIDE The distributor does not agree to the marketing contribution and the $2/000 is split so as to lower our FAS pricing by $1/000.

		DOWN	1992 BASE	UP
Total PM Volume	(mio)	1280	1280	1440
Available profit	($ mio)	$14.9	$16.0	$18.4
Variance from Base	($ mio)	($1.1)		+$2.4

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Schedule M-1

KUWAIT TOTAL - INCOME STATEMENT

(US $ 000)

	LE 1989	OB 1990	1991	1992	CAG % LE89-92
UNIT VOLUME (millions)	1,385	1,238	1,247	1,280	-2.6%
TOTAL OPERATING REVENUES	$35,800	$29,580	$31,034	$31,859	-3.8%
Standard variable cost	11,300	10,426	11,047	11,884	1.7%
Standard cost deviations	-	279	272	280	
LIFO Adjustment	100	61	60	61	-15.2%
MARGINAL CONTRIBUTION	$24,400	$18,814	$19,655	$19,634	-7.0%
Advertising	3,100	2,989	3,333	3,504	4.2%
Sales and promotional allowances	-	-	-	-	N/A
Marketing contribution	-	(2,286)	(2,222)	(2,282)	N/A
NET CONTRIBUTION	$21,300	$18,111	$18,544	$18,413	-4.7%
Local overheads	300	408	438	462	15.5%
Other indirect marketing	200	174	183	192	-1.3%
NET CONTROLLABLE MARGIN	$20,800	$17,528	$17,923	$17,757	-5.1%
Area overheads	700	255	278	301	-24.5%
Fixed manufacturing expenses	3,400	3,139	3,319	3,589	1.8%
General & administrative	-	10	28	32	N/A
INCOME FROM OPERATIONS	$16,700	$14,125	$14,298	$13,835	-6.1%
Local Inflation Rate	2.8%	1.8%	6.6%	7.3%	
Exchange Rate USD=KUD	0.290	0.290	0.290	0.290	

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Schedule M-1A

KUWAIT TOTAL - INCOME STATEMENT

(US $ per thousand)

	LE 1989	OB 1990	1991	1992	CAG % LE89-92
UNIT VOLUME (millions)	1,385	1,238	1,247	1,280	-2.6%
TOTAL OPERATING REVENUES	$25.85	$23.89	$24.89	$24.89	-1.3%
Standard variable cost	8.16	8.42	8.86	9.28	4.4%
Standard cost deviations	-	0.23	0.22	0.22	
LIFO Adjustment	0.07	0.05	0.05	0.05	-12.9%
MARGINAL CONTRIBUTION	$17.62	$15.20	$15.76	$15.34	-4.5%
Advertising	2.24	2.41	2.67	2.74	6.9%
Sales and promotional allowances	-	-	-	-	N/A
Marketing contribution	-	(1.85)	(1.78)	(1.78)	N/A
NET CONTRIBUTION	$15.38	$14.63	$14.87	$14.39	-2.2%
Local overheads	0.22	0.33	0.35	0.36	18.6%
Other indirect marketing	0.14	0.14	0.15	0.15	1.3%
NET CONTROLLABLE MARGIN	$15.02	$14.16	$14.37	$13.87	-2.6%
Area overheads	0.51	0.21	0.22	0.24	-22.5%
Fixed manufacturing expenses	2.45	2.54	2.66	2.80	4.5%
General & administrative	-	0.01	0.02	0.03	N/A
INCOME FROM OPERATIONS	$12.06	$11.41	$11.47	$10.81	-3.6%
Local Inflation Rate	2.8%	1.8%	6.6%	7.3%	
Exchange Rate USD=KUD	0.290	0.290	0.290	0.290	

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KUWAIT

COMPARISON WITH LAST YEAR'S PLAN

(US$ millions)

	1990-1992 Three Year Plan			Last Year's Plan			Fav./(Unfav.)		
	1989 LE	1990 OB	1991	1989	1990	1991	1989 LE	1990 OB	1991
UNIT VOLUME (millions)	1,385	1,238	1,247	1,166	1,182	1,200	219	56	47
TOTAL OPERATING REVENUES	$36.0	$29.8	$31.3	$30.4	$30.6	$33.2	$5.6	($0.8)	($1.9)
MARGINAL CONTRIBUTION	24.4	18.8	19.7	20.4	20.1	21.9	4.0	(1.3)	(2.2)
F.M.E.	3.4	3.1	3.3	2.6	2.7	2.8	(0.8)	(0.4)	(0.5)
Direct Marketing	3.1	3.0	3.4	3.4	4.0	4.1	0.3	1.0	0.7
Marketing Contribution	-	(2.3)	(2.2)	-	-	-	-	2.3	2.2
Indirect Marketing	1.2	0.9	0.9	1.2	1.4	1.4	-	0.5	0.5
G. & A.	-	-	-	-	-	-	-	-	-
Total Expenses	7.7	4.7	5.4	7.2	8.1	8.3	(0.5)	3.4	2.9
INCOME FROM OPERATIONS	$16.7	$14.1	$14.3	$13.2	$12.0	$13.6	$3.5	$2.1	$0.7

KUWAIT: SUMMARY OF 1987, 1988, 1989 AND 1990 PLANS

Market Share (%)	1986	1987	1988	1989	1990	1991	1992	Plan Period Growth
1987 Plan	43.2	43.6	45.9	47.5	-	-	-	4.3 pts
1988 Plan	-	45.0	45.5	47.9	48.9	-	-	3.9
1989 Plan	-	-	42.8	44.0	44.7	47.7	-	4.9
1990 Plan	-	-	-	45.3 LE	44.2	46.5	47.8	2.5
Actual	41.7	42.4	42.7	45.3 LE				
PM Unit Volume (millions)								
1987 Plan	1,317	1,222	1,314	1,367	-	-		1.2 % CAG
1988 Plan	-	1,306	1,298	1,366	1,419	-		2.8
1989 Plan	-	-	1,185	1,166	1,182	1,200		0.4
1990 Plan	-	-	-	1,385 LE	1,238	1,247	1,280	(2.6)
Actual	1,315	1,159	1,194	1,385 LE				
Income from Operations								
1987 Plan	16.2	14.2	13.7	18.0	-	-	-	3.6 % CAG
1988 Plan	-	15.7	16.2	17.8	19.4	-	-	7.3
1989 Plan	-	-	13.9	13.2	12.0	13.6	-	(0.7)
1990 Plan	-	-	-	16.7 LE	14.1	14.3	13.8	(6.2)
Actual	16.4	14.2	15.1	16.7 LE				

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Schedule M-3

Kuwait competitor profile

1. Market Share

(%)

	1987	1988	LE 1989	OB 1990	1991	1992
Philip Morris	42.4	42.7	45.3	44.2	46.5	47.8
Rothmans	24.9	22.9	20.1	18.4	15.2	14.0
BAT & B&W	23.6	23.9	22.2	22.3	21.6	21.3
RJ Reynolds	2.5	2.9	4.6	6.1	7.2	7.6
Gallaher	2.0	1.8	2.1	2.1	2.0	1.7
Eastern	2.9	4.6	5.5	6.5	6.9	7.0
Others	1.7	1.1	0.2	0.4	0.6	0.6
Total Market	100.0	100.0	100.0	100.0	100.0	100.0

2. Domestic Unit Volume

(billions)

	1987	1988	LE 1989	OB 1990	1991	1992
Philip Morris	1.23	1.21	1.32	1.24	1.25	1.28
Rothmans	0.72	0.65	0.59	0.52	0.41	0.37
BAT & B&W	0.69	0.68	0.65	0.62	0.58	0.57
RJ Reynolds	0.07	0.08	0.13	0.17	0.19	0.20
Gallaher	0.06	0.05	0.06	0.06	0.05	0.05
Eastern	0.08	0.13	0.16	0.18	0.19	0.19
Others	0.05	0.03	0.01	0.01	0.02	0.02
Total Market	2.90	2.82	2.92	2.80	2.68	2.68

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Schedule M-4

KUWAIT - BRAND MIX

	UNIT VOLUME - SHIPMENTS (MIO)				CAG	MARKET SHARES (%)				CHANGE
	1989 LE	1990 OB	1991	1992	89-92	1989 LE	1990 OB	1991	1992	92-89
MARLBORO RED BOX	566	470	438	435	-8.4%	18.5	16.8	16.3	16.2	(2.3)
MARLBORO RED SOFT	449	403	372	367	-6.5%	14.7	14.4	13.9	13.7	(1.0)
MARLBORO RED 100 BOX	3	5	5	5	18.6%	0.1	0.2	0.2	0.2	0.1
MARLBORO RED 100 SOFT	6	7	4	4	-16.4%	0.2	0.3	0.1	0.1	(0.1)
SUB TOTAL MARLBORO RED	1024	885	818	810	-7.5%	33.5	31.6	30.5	30.2	(3.3)
MARLBORO LIGHTS BOX	95	85	79	87	-2.9%	3.1	3.0	2.9	3.2	0.1
MARLBORO LIGHTS SOFT	86	75	71	72	-5.8%	2.8	2.7	2.6	2.7	(0.1)
MARLBORO LIGHTS 100 BOX	3	3	3	3	-5.9%	0.1	0.1	0.1	0.1	(0.0)
MARLBORO LIGHTS 100 SOFT	3	3	3	3	-5.9%	0.1	0.1	0.1	0.1	(0.0)
SUB TOTAL MARLBORO LIGHTS	187	165	155	164	-4.3%	6.1	5.9	5.8	6.1	0.0
MARLBORO ULTRALIGHTS	0	0	20	30		0.0	0.0	0.7	1.1	1.1
TOTAL MARLBORO	1,211	1,050	993	1,004	-6.1%	39.6	37.5	37.1	37.5	(2.1)
PM SUPERLIGHTS BOX	3	7	13	19	85.0%	0.1	0.3	0.5	0.7	0.6
MERIT DE NIC	0	0	10	20		0.0	0.0	0.4	0.7	0.7
MERIT KS BOX	12	10	10	9	-9.1%	0.4	0.4	0.4	0.3	(0.1)
MERIT KS SOFT	15	12	8	6	-26.3%	0.5	0.4	0.3	0.2	(0.3)
MERIT 100 SOFT	3	2	2	2	-12.6%	0.1	0.1	0.1	0.1	(0.0)
MERIT ULTRA LIGHTS BOX	40	42	43	43	2.4%	1.3	1.5	1.6	1.6	0.3
MERIT ULTRA LIGHTS SOFT	15	16	20	23	15.3%	0.5	0.6	0.7	0.9	0.4
TOTAL MERIT	85	82	93	103	6.6%	2.8	2.9	3.5	3.8	1.0
L & M BOX	61	63	65	66	2.7%	2.0	2.3	2.4	2.5	0.5
L & M FULL FLAVOUR SOFT	0	0	2	2		0.0	0.0	0.1	0.1	0.1
L & M LIGHTS SOFT	10	20	25	25	35.7%	0.3	0.7	0.9	0.9	0.6
L & M MENTHOL 100 SOFT	3	2	2	2	-12.6%	0.1	0.1	0.1	0.1	(0.0)
TOTAL L & M	74	85	94	95	8.7%	2.4	3.0	3.5	3.5	1.1
PARLIAMENT BOX	0	0	12	15		0.0	0.0	0.4	0.6	0.6
CONGRESS	0	0	20	22		0.0	0.0	0.7	0.8	0.8
LARK BOX	3	2	2	2	-12.6%	0.1	0.1	0.1	0.1	(0.0)
LARK SOFT	3	2	3	3	0.0%	0.1	0.1	0.1	0.1	0.0
LARK 100 SOFT	3	2	2	2	-12.6%	0.1	0.1	0.1	0.1	(0.0)
TOTAL LARK	9	6	7	7	-8.0%	0.3	0.2	0.3	0.3	(0.0)
VISA BOX	3	8	15	15	71.0%	0.1	0.3	0.6	0.6	0.5
TOTAL PM	1,385	1,238	1,247	1,280	-2.6%	45.3	44.2	46.5	47.8	2.5
TOTAL MARKET	2,920	2,800	2,680	2,680	-2.8%	100.0	100.0	100.0	100.0	

Note: PM unit volumes reflect shipments. Market shares reflect in market sales
From OB and forward shipments are assumed to equal in market sales

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Schedule M-6

Kuwait Retail Price Increases

Marlboro Red Box 80mm (KWD per 000)	Base Price (12/31/89)	Increases 1990	1991	1992	Ending Price (12/31/92)
Manufacturer	7.74	0.00	0.35	0.00	8.09
Freight & Insurance	0.15	0.00	0.00	0.00	0.15
Taxes	2.37	1.29	0.17	0.00	3.83
Distribution/Trade	2.74	0.21	0.48	0.00	3.43
Total Price Increase	13.00	1.50	1.00	0.00	
Date of Increase		January	January		

NOTE: Sharing of price increase is based on carton margins.

Ending Retail Price					
KWD per 000	13.00	14.50	15.50	15.50	15.50
KWD per carton	2.60	2.90	3.10	3.10	3.10
KWD per pack	0.27	0.30	0.32	0.32	0.32
Marginal Contribution					
US$ per 000	$18.45	$15.94	$16.80	$16.44	
FAS (US Exports)	26.70	24.70	25.90	25.90	
Exchange Rate					
US$ = KWD	0.29	0.29	0.29	0.29	
Inflation	2.8%	1.8%	6.6%	7.3%	

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KUWAIT - Competitive Retail Prices (1989-1992)
LRP Assumptions

(KD/Carton)	Company	Current Price Category	End 1989	OB 1990	1991	1992
Marlboro	PM	PP	2.60	2.90	3.10	3.10
Merit	PM	PP	2.60	2.90	3.10	3.10
PMSL	PM	PP	2.60	2.90	3.10	3.10
L&M	PM	BP	2.00	2.20	2.40	2.40
Lark	PM	MI	1.90	2.20	2.40	2.40
Congress	PM	LO	1.40	1.60	1.80	1.80
Visa	PM	LO	1.40	1.60	1.80	1.80
Parliament	PM	PP	-	2.90	3.10	3.10
Benson & Hedges	BAT	PP	2.40	2.60	2.80	2.80
Westminster	BAT	PP	2.40	2.60	2.80	2.80
Players Gold Leaf	BAT	MI	1.60	1.80	2.00	2.00
Barclay	B&W	PP	2.60	2.80	3.00	3.00
Viceroy	B&W	LO	1.60	1.80	2.00	2.00
Cleopatra	EASTERN	LO	1.60	1.80	2.00	2.00
Silk Cut	GALLAHER	PP	2.40	2.60	2.80	2.80
Winston	RJR	PP	2.60	2.80	3.00	3.00
Gold Coast	RJR	LO	1.40	1.60	1.80	1.80
Monroe	RJR	LO	1.30	1.50	1.70	1.70
Monte Carlo	RJR	LO	1.30	1.50	1.70	1.70
Cartier	TEI	AP	2.80	3.00	3.20	3.20
Dunhill Int.	TEI	AP	2.80	3.00	3.20	3.20
Rothmans KS	TEI	PP	2.40	2.60	2.70	2.70
Dunhill KS	TEI	PP	2.40	2.60	2.80	2.80

ALTERNATIVE SCENARIO - NO TAX INCREASE DURING PLAN PERIOD

(KD/Carton)	Company	Current Price Category	End 1989	1990	1991	1992
Marlboro	PM	PP	2.60	2.70	2.90	2.90
Merit	PM	PP	2.60	2.70	2.90	2.90
PMSL	PM	PP	2.60	2.70	2.90	2.90
L&M	PM	BP	2.00	2.00	2.20	2.20
Lark	PM	MI	1.90	1.90	2.10	2.10
Congress	PM	LO	1.40	1.40	1.60	1.60
Visa	PM	LO	1.40	1.40	1.60	1.60
Parliament	PM	PP	-	2.70	2.90	2.90
Benson & Hedges	BAT	PP	2.40	2.40	2.60	2.60
Westminster	BAT	PP	2.40	2.40	2.60	2.60
Players Gold Leaf	BAT	MI	1.60	1.60	1.80	1.80
Barclay	B&W	PP	2.60	2.60	2.80	2.80
Viceroy	B&W	LO	1.60	1.60	1.80	1.80
Cleopatra	EASTERN	LO	1.60	1.60	1.80	1.80
Silk Cut	GALLAHER	PP	2.40	2.40	2.60	2.60
Winston	RJR	PP	2.60	2.60	2.80	2.80
Gold Coast	RJR	LO	1.40	1.40	1.60	1.60
Monroe	RJR	LO	1.30	1.30	1.70	1.70
Monte Carlo	RJR	LO	1.30	1.30	1.70	1.70
Cartier	TEI	AP	2.80	2.80	3.00	3.00
Dunhill Int.	TEI	AP	2.80	2.80	3.00	3.00
Rothmans KS	TEI	PP	2.40	2.40	2.70	2.70
Dunhill KS	TEI	PP	2.40	2.40	2.60	2.60

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BUSINESS INITIATIVES

C1. **EASTERN EUROPE OBJECTIVES**

		LE 1989	OB 1990	1991	1992	%CAG LE1989 -1992
Exports & Contract						
Unit Volume	(mio)	2,175	2,618	2,847	3,035	11.7%
Income from Operations	($mio)	$25.4	$31.6	$38.4	$43.7	19.8%
Other License						
Unit Volume	(mio)	3,465	3,400	3,925	4,355	7.9%
Income from Operations	($mio)	$5.8	$5.6	$7.9	$9.6	18.3%

Overview

The Eastern European states including Yugoslavia are clearly undergoing extensive political, social and economic changes. The root causes are economic failure and lack of freedom. The anticipated transitions to private ownership, free trade, market-based pricing and currency convertibility will be tempered by government economic policies and priorities. Their extent and pace will vary considerably. Politically it will be necessary to satisfy some consumer aspirations, but economically the priority will go to investment and hard currency exports. Overnight this will not create a market for Marlboro of 150 million people, since in the short to mid term the majority of people will remain poor. However, these economies will slowly turnaround, and the number of people able and willing to pay for quality consumer goods will inevitably rise provided the expected aid and investment funds are forthcoming.

Broadly, the countries split into two groups in terms of average consumer spending. CSSR, DDR and Hungary are on a par with Turkey; Poland, Bulgaria and Rumania are much poorer, more like the USSR; and Yugoslavia is an intermediate case with a rich north and a poor south.

Industry Background

1988 (bio)

	Consumption	Production	Intl Licence	H/C Sales
Poland	91	89	0.2	1.1
Yugoslavia	56	59	12.3	1.7
Rumania	36	30	-	-
DDR	30	28	1.4	2.0
Hungary	26	26	1.2	0.4
CSSR	26	25	0.3	0.2
Bulgaria	14	88	0.2	0.9

These countries are predominantly self-sufficient in cigarette manufacture, or aspire to be. Currently there are serious shortfalls in Poland and Rumania where consumption would otherwise be higher. Bulgaria is a major exporter, primarily to the USSR at around 60 billion units per annum. Factories and tobacco processing facilities are, or have been, state owned, except for Yugoslavia where worker ownership is the rule. The factories are generally dilapidated. International brands are manufactured in all markets with the exception of Rumania. There are no unrestricted cigarette imports for domestic consumption today.

Low quality tobacco is extensively grown. The farmers are predominantly private in Poland and Hungary. Processing facilities are poor and grading techniques inadequate. Prices are subject to control.

Cigarettes are generally of very low quality and many are non-filter. Most products are sold at low prices, and essentially subsidized at the bottom end; e.g., the average Polish pack price is 6 US cents. Some formal

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taxation systems are in place. Trademarks typically do not belong to the factories.

Hard currency shortages pose serious problems, constraining not only the manufacture of international brands, but also the import of equipment, spare parts, and NTM's like filter tow, farming equipment and chemicals. Countertrade is a necessary requisite for importing the essential materials for local manufacture of brands to be sold on the soft currency markets.

All countries have hard currency shops with the exception of Rumania. The total cigarette sales in 1989 will exceed $300 million in retail value. Locally manufactured international brands sell alongside imports in all but Yugoslavia. These shops have only been of significance for domestic consumption hitherto in Poland, Hungary and Yugoslavia. Sales in Bulgaria are primarily to transiting Turks. In Yugoslavia, substantial quantities go to tourists during the vacation season.

Competition

The following estimates show the competitive picture for these Eastern European markets in 1988, with the exception of Rumania where unknown quantities of Kent (B&W), traditionally the local "currency", enter the market.

	Local Manufacture (bio)				
	Yugoslavia	DDR	Other	Exports (bio)	Marginal Contrib. ($mio)
PM	1.4	0.4	1.5	1.6	35
BAT	0.8	0.3	0.0	0.6	10
B&W	0.2	-	-	0.4	4
RJR	0.5	0.1	0.1	0.4	7
Rothmans	8.3	0.4	0.0	0.8	13
Other Intl.	1.1	0.2	0.2	0.9	11
TOTAL	12.3	1.4	1.9	4.7	80
PM share	11%	25%	76%	33%	44%

Rothmans' presence is primarily through Brinkmann, and BAT's is in large part through its West German affiliate. Austria Tabakwerke (ATW) is the biggest in the "Others" category, with a small volume from Reemtsma.

The Yugoslavian licence business is shown separately since the volume is so significant. The large Rothmans' volume is Lord, manufactured entirely from local tobaccos and returning very little in earnings.

The DDR business is mainly contract manufacture for sale in hard currency shops, where the competition is primarily between Marlboro and the traditional German brands.

We dominate the rest of the licence business, being present in all markets. ATW's volume is in Hungary, where they have long standing relationships, and in Yugoslavia. RJR has recently begun manufacturing Camel in Hungary, and has a long standing Winston licence in Yugoslavia. They withdrew their earlier Winston licence in Bulgaria following problems with Bulgartabac. RJR is aggressively pursuing local manufacture opportunities in Eastern Europe, particularly in Poland and the CSSR, plus another license for Winston in Hungary.

We are the dominant supplier of exports and are the leaders with our premium pricing. Exports are primarily retailed for hard currency, and which we estimate account for 75% of the $80 million earned by the international companies in marginal contribution in 1988. If we add the DDR contract manufacture business, then this share rises to 85%.

Assumptions

Despite moves to currency convertibility, tariff and non-tariff barriers will be put in place to protect local tobacco industries and minimize hard currency outflows; this will limit export potential for finished products.

All countries will want self sufficiency in cigarette manufacture, and the industries will need to be rebuilt with major investments.

Hard currency sales will not endure long term apart from the conventional duty free for travellers. Once currencies are freely convertible, hard currency flows are under control, and international brands are on the local markets, they will no longer serve a justifiable purpose. In the interim, they will start to be subject to controls, either through taxation or the licensing of outlets.

HARD CURRENCY BUSINESS

Objective

Develop and exploit the lucrative hard currency businesses, and preserve them as profitable business channels as long as possible.

* Priority markets: Yugoslavia, Poland, DDR, Hungary, Bulgaria.

Issues

The long term existence of hard currency shops is threatened. Already in Yugoslavia taxation has been applied and increased; and there has been official concern over the expanding number of outlets which now number 1500. Hungary already applies a high import duty and may shortly apply VAT. The CSSR is reticent to extend the number of outlets, ostensibly because of their incompatibility with the eventual wish for a freely convertible currency.

The number of operators and outlets is proliferating - complicating distribution and merchandising; causing friction with traditional clients who prefer exclusive arrangements; stretching working capital and therefore credit needs; and raising production costs in Hungary where individual operators need unique stickers.

This high margin business offers the opportunity for lower priced volume growth. Today we sell above our major competition. Our continuing success may invite more aggressive price cutting, particularly from brands such as Gold Coast, Lucky Strike and Viceroy.

The consignment stock system in Yugoslavia requires tight control, and future requests could arise from other markets to adopt such a system.

Strategies

* Lobby government officials directly, through our business partners and via the US government on the benefits of the hard currency outlets until such time as consumers may freely purchase the same goods in the domestic markets.

This action is already underway in Yugoslavia, where we are also lobbying for the tax on the wholesale price to be discontinued and the tax on the retail margin to become specific.

* Exploit the proliferation of outlets to our advantage by providing a superior service than our competitors.

Already we have achieved this with our new local organization and computerized systems with direct distribution to retail in Yugoslavia. We shall develop the local resources in Poland to further supplement the distribution capabilities of Baltona in the three major cities, and introduce an equivalent system for Pewex. In Hungary we are establishing a local representative office to boost our local capability.

* Dominate the competition in merchandising capability and marketing.

In Poland we shall expand our shop development program to increase shelf space and secure high advertising awareness; as well as implement our plans for the installation of locally manufactured shelving units. We shall expand our involvement in high image music and art sponsorships

In Yugoslavia, our high profile marketing programs for Marlboro include an aggressive Marlboro unbranded billboard placement at prime service stations throughout the country. Trade and consumer promotions are on-going, and we continue to upgrade our permanent POSM that gives us our dominant visibility.

In the DDR we shall further extend our shop improvement program, and our consumer promotion plans. East Berlin will receive special attention.

In Hungary, our on-going merchandising and POSM activities will be strengthened, and all fixed signage opportunities pursued in new outlets. Sales incentive schemes will be introduced, and sales seminars are planned.

* Remain the price leader.

We shall remain aggressive price leaders with Marlboro, introducing lower price brands to compete where necessary. In Yugoslavia we are testing L&M, Diana, and Mercedes. Meanwhile we are optimistic we shall achieve a conversion of the trade margin to a specific fee. In Poland, where price competition is fiercest, we have a very wide product offering, but it is the lower price Marlboro soft pack made under license that primarily competes with cheap imports. In Bulgaria, our pricing will continue to be determined by the competing price from the Turkish duty free operators, which we control. We are giving serious consideration to switching further from European to US sourcing (though West Germany may be preferable for DDR). Despite the higher product costs involved, the extra panache of US sourcing may help justify our premium pricing policies.

DOMESTIC MARKETS

Objective

Promote the necessary environments for profitable, domestic tobacco industries, and participate actively in their rebuilding, leveraging our technological leadership and the head start that we currently enjoy in local manufacturing.

* Priority markets: DDR, Hungary, Poland, Yugoslavia.

Issues

General:

* Shortages of hard currency, countertrade obligations, exchange rate policies.
* Industry subsidization, absence of profit concepts, price controls and lack of free market pricing, state ownership, monopolies and cartels.
* Uncertainty of corporate taxation and treaties with the US.
* Foreign investment legislation - ownership, incentives, capital repatriation, etc.
* Employment practices and labor laws.
* Access to US, West German, and EC investment and financing aid.
* Marketing freedoms.
* Trademark protection.
* Lack of consumer purchasing power.

Tobacco industry:

* Low priority accorded to industry.
* Low profitability of the industry.
* Poor condition of factories.
* High volumes of inferior quality tobaccos.
* Organization of tobacco farmers and processing facilities.
* Low quality of locally available NTM's.
* Poor cigarette quality, and low penetration of filtered products.
* Taxation systems and levels.

Strategies

* Be prepared to invest resources aggressively, realizing that we cannot anticipate substantial, early returns.

* Lobby actively to achieve an operating environment in which the cigarette industry is profitable under free economic conditions.

* Lobby actively to achieve a favorable environment for foreign investment.

* Exploit all opportunities to participate in the domestic markets with Marlboro, L&M (potentially at a lower price level), and one good quality, mid price, local brand.

* Seek a controlling equity in manufacturing facilities that will enable a competitive advantage to be achieved. Investment would preferably be through provision of equipment.

* Seek a competitive advantage in distribution.

* Exploit FML for local filters.

* Develop the capability of local NTM suppliers.

* Seek other ways to generate hard currency.

* Study opportunities to exploit our involvement with tobacco farming (in Poland and Hungary), seeking to achieve preferential access to the better local tobaccos at the right prices. Involvement of other third parties will be evaluated.

* Influence the taxation regime to achieve favorable conditions for excise tax and import duties. Use the EEC as a desirable model for import duty levels on cigarettes, raw and processed tobaccos.

<u>Specific Plans in Place</u>

<u>Poland</u>:

* Take advantage of the present shortage in domestic supplies to import Brazilian sourced L&M/Chesterfield.

* License L&M to ZPT to supply the domestic market, providing technical assistance and machinery. Obtain exclusivity in all three factories.

* Evaluate a partnership arrangement with the Lublin tobacco organization, which controls two-thirds of domestic tobacco and has approached us for help.

<u>DDR</u>:

* License L&M to the Dresden factory using Brazilian cut filler, providing technical assistance and equipment.

* Implement Project Hit which will save hard currency tobaccos and subjectively improve local brands, with the provision of technical assistance and the sale of casings and flavors.

* Pursue the evaluation of FML as a source of hard currency savings.

<u>Hungary</u>:

* Expand our locally manufactured product range to Marlboro Lights to develop this segment.

* Investigate the merits of the equity participation or joint venture with the Eger factory that has been broached to us.

* Work closely with the distributing organization, Doheszk, to upgrade distribution, and with our key customers to improve ordering routines.

<u>Yugoslavia</u>:

* Complete the upgrade of the secondary department at our licensee's factory at Sarajevo.

* Lobby the Ministry of Finance to rationalize the domestic tax system, replacing it with a less discriminatory system. A detailed proposal with rationale has already been submitted and discussed.

C2. **USSR OBJECTIVES**

		LE 1989	OB 1990	1991	1992	%CAG LE1989 -1992
Unit Volume	(mio)					
Domestic		--	--	250	700	N/A
Hard Currency		175	200	225	250	12.6%
Total		175	200	475	950	75.7%
Income from Operations	($mio)	$1.7	$1.9	$2.8	$4.0	33.0%
Market Share	(%)					
Total Market Size	(bio)	400	400	400	400	--

OVERVIEW

The Soviet Rouble is non-convertible. Hard currency is extremely scarce and with compensation ratios of 100%, projects must be virtually self-funding in terms of hard currency requirements. The scarcity of suitable products can result in the linkage of diverse products in a series of complex trade transactions, often based on barter deals where disagios of 15% to 20% are common. The necessity to leverage existing bilateral trade agreements, to negotiate with a multiplicity of ministries as well as individual Republics creates serious complications, and raises the risk of conducting business with the Soviets.

The fragility of Perestroika, given the dismal shape of the economy along with rising social and ethnic unrest augur poorly for any acceleration in the restructuring of the economy. Official exchange rates have risen dramatically, and fiscal policy has already attempted to impose a 30% excise tax on cigarettes. Price controls which had been eased are being re-established and are now extended to cover even cooperatives.

With respect to our situation, the low priority reportedly accorded the tobacco industry by the Soviet authorities is compounded by the lack of US government trade support, when compared with that provided by other nations, notably EEC members.

STRATEGIES AND ACTIONS PLANS

1. Exploit existing bilateral trade agreements. Focus on India through the establishment of a tripartite joint venture with Export Oriented Unit status.

   Resolve the balance of payments concern voiced by the Indian authorities through the purchase of Indian tobaccos. Ensure the Soviets include cigarettes in the list of products incorporated in the annual trade protocol.

   Pursue a similar project in Syria upon the expected ratification of a new investment law liberalizing the scope of private sector investments.

   Exploit the Turkish trade agreement at the appropriate time pursuant to Project Kiss developments.

2. Vigorously pursue the opportunity that derives from our polypropylene filter technology (FML).

   Determine the optimal structure of a FML venture to maximize hard currency flows to support the local manufacture of Marlboro.

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3. Systematically pursue and exploit all avenues leading to exports of finished products to the domestic market, such as the deal envisaged with International Leisure & Arts Ltd. and Centro-Soyuz.

4. Raise the assigned priority of tobacco by alerting the Soviets to the significant economic benefits of the tobacco industry.

   Focus on the industry's potential to cut the budget deficit estimated at 120 billion Roubles (13% of GNP!) and to drain liquidity.

5. Seek out opportunities to exploit Western government trade support, e.g., determine the feasibility of a venture with SEITA in France for exports to the USSR.

6. Seek and exploit reciprocal trade opportunities directly or via consortia. Essentially focus on products consumed internally to secure long-term transactions. Examples are :

   - a venture with Transcontinental on Suchumi tobacco in Georgia,
   - a deal with Pechiney's Ukraine joint venture for Simmenthal cans ($10 million/annum),
   - an aluminum deal with our suppliers of alu-foil,
   - a deal with Conagra exploiting its purchases of Soviet fertilizers ($100 million/annum),
   - tomatoe paste, recognizing the difficulties this project entails for a potential impact not earlier than 1995,
   - potential deals with Nissho Iwai or Mitsui, e.g., apple juice,
   - a tripartite consortium with Axel Johnson,
   - securing timber through the Baltic States.

7. Pursue the Moscow City Food project feasibility study. If viable, implement and secure full support of Moscow City Council and Mosagroprom to facilitate a license agreement for Marlboro with Yava.

8. Nurture and maintain close relationships with key potential partners and decision makers in the Soviet Union, and exploit US-USSR Trade Council membership.

9. Fully support the development of the hard currency export business. Exploit the opening of new shops and extend geographical cover.

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C3. **IRAQ OBJECTIVES**

		LE 1989	OB 1990	1991	1992	%CAG LE1989 -1992
Unit Volume	(mio)	175	300	350	400	31.7%
Income from Operations	($000)	$0.2	$0.2	$0.7	$1.1	75.2%
Market Share	(%)	0.9%	1.5%	1.7%	1.8%	0.9pts
Total Market Size	(bio)	20.0	20.6	21.2	21.8	2.9%

MAJOR ISSUES

With increasing oil production and a strengthening oil price, Iraq's current account deficit of some $4 billion should diminish overtime. However, the country's foreign debt, placed as high as $30 billion, combined with the continuing priority to rebuild defense forces, promises to make reconstruction of the economy a protracted process. With well over 90% of its export revenue dependent on crude petroleum, Iraq will remain totally vulnerable to fluctuations in the oil price.

Pent-up demand for imports has sustained a growing black market for foreign exchange. There is a widening discrepancy between the official rate for the Iraqi Dinar versus the rate in neighboring countries. The official rate stands at US$=IRD 0.31 versus a free rate of US$=IRD 3.40, where our business hinges on this free rate. With persistently high rates of local inflation, this will likely worsen, while disposable income will continue to erode.

The Minister of Trade did raise import allocations for 1989 by 22%, with the private sector entitled to make 26% of the foreign purchases, subject to the conditions contained in the enabling law, No. 52/1988. Our distributor's continued ability to generate sufficient hard currency to finance the importation of Marlboro is, however, at risk.

At IRD 17.5/200s, Marlboro's retail price is more than five times higher than Sumer, the leading local brand. While this price differential severely limits the target market for foreign brands, the imminent re-launch of Rothmans KS, via the private sector, will increase market competition, and threaten PM's current domination of the segment and of the point of sale. When RKSF was imported in the mid 70's, it sold about 4 billion units.

The need to develop our distributor's organization and activity remains key. We need to establish a reliable distribution network, where direct distribution to retail is needed in order to circumvent speculation now done by the wholesale trade.

Further, Iraq's strict compliance with the Arab boycott of Israel impacts our ability to register our trademarks. This leaves us vulnerable to preemptive moves by competition, as today's situation with Parliament and BAT. SETC's need to utilize its factory capacity could lead to increasing pressure on PM to produce locally, where disruptive tactics to restrict the imports of foreign brands could be used as a means. The misapplication of quality control on imported brands, where Iraq relies on SETC for QC, is an example. As Iraq is a member of the Arab Gulf Health Ministers' Council, marketing and product restrictions are also a threat.

On the positive side, the retail trade is extremely receptive to POSM; we have already achieved considerable in-shop presence, with both permanent and temporary POSM. We clearly dominate all A- and B-class outlets, and supermarkets.

STRATEGIES AND ACTIONS PLANS

1. Continue to monitor the free exchange rate on a regular basis and if necessary, seek to persuade our distributor and the importers to accept reduced margins in order to prevent Marlboro being priced out of the market. Continue to fully secure receivables.

2. Develop our distributor's organization via direction and training of key personnel. Agree on an organization plan with our distributor which will be developed over the next three years. Ensure that Baghdad remains fully covered while efforts are extended to other key locations, e.g., Mosul and Basra.

3. Improve market intelligence through our distributor and by frequent PM visits. Locate a field manager in Baghdad by mid-1990, if feasible.

4. Ensure that our distributor continues to generate hard currency via the development and correct selection of importers.

5. Launch L&M by mid-year 1990 as an entry in the below premium price segment.

6. Develop an ongoing collaborative relationship with the Iraqi Quality Control Department.

7. Address the trademark issue by introducing a small quantity of Parliament in 1990 and monitor BAT's reaction.

8. With emphasis on the installation of permanent material, maintain supremacy at POS, without provoking a backlash from local authorities.

9. Monitor anti-smoking activities and seek the involvement of PM Middle East Corporate Affairs.

10. Penetrate the duty-free market, with particular emphasis on improving sales with Iraqi Airways.

11. Strive to build a mutually beneficial relationship with SETC. Offer technical assistance and a L&M license agreement once the brand reaches a credible volume level.

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C4. AFRICA

		LE 1989	OB 1990	1991	1992	%CAG LE1989 -1992
Unit Volume	(mio)	10,980	11,719	12,601	13,247	6.5%
Income from Operations	($mio)	$ 18.0	$26.0	$30.2	$34.8	24.6%

Our objective is to grow unit volume and share, and to maximize pricing, subject to local economic and competitive constraints. We have a strong volume base today. Our competition is more than willing to use price as a weapon, in particular RJR. Our major challenge is to surmount the barriers to market access rolling out through West & Central Africa.

NORTH AFRICA

ALGERIA

		LE 1989	OB 1990	1991	1992	%CAG LE1989 -1992
Unit Volume	(mio)	970	1,035	1,190	1,350	11.6%
Income from Operations	($mio)	$1.4	$2.0	$1.2	$3.3	33.0%
Market Share	(%)	5.5%	5.7%	5.6%	6.2%	+0.7pts
Total Market Size	(bio)	17.3	17.6	18.0	18.5	2.3%

With the recent change in philosophy for state-owned companies to align their retail prices with black market prices, and SNTA's change in status to an autonomous company, the tobacco monopoly has obtained a retail price increase for cigarettes. This is the first retail price increase since 1985 that has not been totally absorbed by an increase in taxation. The achievement of an ex-factory price rise restores the SNTA margin and should enable us to pursue implementation of the royalty indexation clause in our contract.

Our budgeted volume for domestic manufacture in 1990 of 1 billion units is the maximum achievable with existing available capacity. Our strategy to expand our business is to achieve additional capacity for Marlboro KS Soft in the Gouraya factory. The total capacity target is 1.6 billion for which SNTA would invest $2.0 million. PM would pay $350,000 for the installation and training in 1991.

The second phase of our expansion program is to line extend Marlboro Red with the box variant. This will cost PM $1.3 million for make/pack equipment probably located in the El Khroub factory; this is budgeted in 1991. The launch is planned for 1992, and will be the first step in our ultimate objective of launching a new brand family, possibly Chesterfield.

Hard currency shortages, aggravated by the depreciating Dinar remain the major constraint on our business. We will continue our cooperation program to seek means for SNTA to save hard currency which ultimately benefit our business. Local printing has been one such example, as are programs to reduce NTM wastage. Technical assistance for a reconstituted tobacco plant, upgrading the primary to reduce tobacco wastage and potentially FML-technology are possibilities for the future.

In addition, we are working with SNTA on a project to improve the taste quality of one of their brands, for which we will supply the ingredients. We will further leverage our relationship with the new General Manager of SNTA to offer advisory assistance and evaluate possible areas for greater cooperation and thus, to preempt competition. The RJR contract with SNTA expires July 1990. We are to renegotiate our agreement no later than September 1990.

MOROCCO

		LE 1989	OB 1990	1991	1992	%CAG LE1989 -1992
Unit Volume	(mio)	590	652	675	700	5.8%
Income from Operations	($mio)	$2.7	$3.0	$3.4	$3.9	12.9%
Market Share	(%)	4.2%	4.1%	4.2%	4.3%	0.1pts
Total Market Size	(bio)	14.9	15.0	15.2	15.4	1.1%

The international segment is shared between PM and RJR. We hold 40% of the segment versus 30% last year, due to the renewed growth of Marlboro. This year the Régie signed an agreement with RJR for cooperation on the new factory project, including first option when the Régie decides to produce international brands under license in the new factory.

Our strategy is to cultivate solid relations with the Régie, to maintain Marlboro's retail price at parity with Winston, and to continue to improve the effectiveness of our marketing activities, especially in the rural areas, a Winston stronghold.

As part of our program to strengthen our relationship with the Régie, we are cooperating with them by providing advisory technical assistance for a stemmery and a redrying unit, and for a reconstituted tobacco plant, and advisory assistance in training and organization.

EGYPT

		LE 1989	OB 1990	1991	1992	%CAG LE1989 -1992
Unit Volume	(mio)	900	1,000	1,000	1,000	3.6%
Income from Operations	($mio)	$3.6	$3.8	$4.0	$4.2	4.9%
Market Share	(%)	2.1%	2.4%	2.4%	2.5%	+0.4pts
Total Market Size	(bio)	43.3	42.5	41.5	40.5	-2.2%

International brands have been supplied entirely by local production since 1987. PM has been the only company to operate effectively under these circumstances; RJR had actually stopped production of its brands early this year and has only now recommenced the local production of Winston with a new partner. PM holds 70% of the international segment.

Our objective is to maintain regular production at the maximum capacity available. EITCO, our local partner, has agreed to increase its financing for the business in order to compensate for the systematic banking delays with respect to opening letters of credit for material supplies. This will enable a sufficient inventory for Eastern's on-going production requirements.

We will reintroduce Merit in 1990; Merit had achieved a 4.3% share of the international segment before imports ceased, and today holds over 8% of Egypt duty free sales. In addition we plan to switch our BBS operation to cut filler, in order to improve the quality, taste consistency and freshness of our products. This will also reduce the need for local production supervision, as well as the spare parts requirements. We will maintain our profit margins by setting a cut filler price which recoups the foregone income on ingredients. This will have a minimal impact on our partner's profitability as the import duty on tobacco is specific. We will continue to apply the surcharge on our leaf prices, which fully secures any outstanding royalty payments.

We will also continue to leverage US government support to eliminate the discriminatory tax applied to international brands, in order to enter the mid-price segment.

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Our current license agreement with EITCO expires December 1990. In the event that our partner does not meet his financial commitments or improve his general management of our business, we will not renew our license agreement for a new term. In preparation for this, we are actively, and confidentially, searching for an alternative partner.

WEST & CENTRAL AFRICA		LE 1989	OB 1990	1991	1992	%CAG LE1989 -1992
Unit Volume	(mio)	2,965	3,295	3,755	4,146	11.8%
of which: Marlboro		2,450	2,628	2,846	2,975	6.7%
Income from Operations	($mio)	$6.0	$10.5	$12.8	$12.8	28.8%
Market Shares	(%)					
Ivory Coast		16%	17%	19%	21%	+5pts
Senegal		29%	26%	26%	26%	-3pts

Our position in West & Central Africa is under attack by our international competition which is becoming increasingly aggressive, and by the Bolloré Group, a relatively recent entrant into the tobacco business who has launched a comprehensive program of market penetration and control.

Today, Bolloré has equity participation in nine factories in West & Central Africa: MTOA (Senegal), SITAB (Ivory Coast), ENTAG (Guinea), MABUCIG (Burkina Faso), SIAT (Congo), MCT (Chad), SOCACIG (RCA) and SOCIGA (Gabon), as well as SACIMEM in Madagascar.

His strategy to cement total market control is clear - establish a monopoly in the important mid and low price segments, limit the options of the international companies to the premium segments, make them reliant on Bolloré manufacture for market access, and play them off against each other to gain the most advantageous terms.

With Bolloré's sale to BAT of his holding in SBAC, his first tobacco acquisition in Africa, the expectation was that he would subsequently sell off acquired assets for the sole objective of maximizing his financial gain. However, the breadth of his campaign and the aggressivity used to secure market position indicate that he is in the business for the longer term. His plan now seems to be to maximize the gain from these domestic markets, continue the roll-out campaign, where supply to Nigeria and entry into North Africa are targets, and use the manufacturing centers as an export base for markets like the Middle East, where his products are already showing up. In addition, we understand that he has just concluded an agreement with the Sudan Company in Brazil to export Boston to Africa, and presumably to the Middle East.

He has put the rest of the international manufacturers into competition, where the lowest terms are likely to win licensing agreements, with exclusivity in the American blend segment a further enticement. RJR has concluded such terms with ENTAG in Guinea. BAT recently established a local manufacture agreement with MABUCIG in Burkina Faso for Benson & Hedges. A first for BAT's B&H trademark, the ability to export to the tightly controlled Ivory Coast market was the added benefit.

The willingness of governments, like Guinea and Senegal, to effect protectionist taxation and customs policies, combined with the general deterioration in consumer purchasing power further limit our ability to

manoeuver. SEITA is dissatisfied with the results of their association with Bolloré and is willing to consider alternative arrangements. In addition, Rothmans is apparently in a bidding contest against Bolloré to acquire the MANUCIA factory in Benin, which is for sale at auction.

Unless we finalize and implement a viable plan to counter the Bolloré threat, we will not be able to maintain a meaningful presence in these markets. Our plan may eventually require an investment, where close collaboration with SEITA is an integral component.

Near term, we will continue to maximize market access via the channels which remain open, expand our product portfolio to compete in the lower price segments where the consumers are moving, and price our products competitively.

Our current license agreements in these markets include SITABAC in Cameroon, MTOA in Senegal, and SITAB in the Ivory Coast. The potential in Cameroon is limited, while the Senegal and Ivory Coast markets remain relatively attractive. Our agreements in both these markets expire in the near term - Senegal in December 1990 and Ivory Coast in March 1991. While the Plan reflects a renewal of these license agreements, we are in the process of evaluating all feasible alternatives, with and without a continuation with the Bolloré Group. Our initial evaluation indicates that investment in a make/pack venture in Senegal is not viable, due in large part to the assumption that Bolloré would launch the industry into a pervasive price war in order to protect his volume base. Ultimately, the most viable strategy may be to acquire the Bolloré Group's tobacco assets, in whole or in part.

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CORPORATE AFFAIRS

D. CORPORATE AFFAIRS

REGIONAL OVERVIEW

To deal with the critical issues confronting the Region, we must actively enhance our capability to impact public opinion, contain the excesses of our opponents, and influence government decisions.

These critical issues impact our income prospects both short and long term. They are:

Taxation : Our priority markets all face the threat of higher taxation - Turkey, Saudi Arabia, Kuwait, Finland, Eastern European hard currency businesses, and potentially Switzerland. Of particular concern is the reinforcement of fiscal pressure by our opponents as is happening in the GCC and the Nordic countries. Tax structures are also of vital importance in our major markets.

Marketing Freedoms : Continual pressure is being exerted even in those markets where our remaining rights are minimal, as in Finland and Saudi Arabia. However, the threat of outright bans, or at least extremely severe restrictions, is now faced in Sweden, Turkey, and Switzerland as well.

Smoking Restrictions : Workplace smoking and restaurant smoking are becoming the battlegrounds for smoking restrictions and, therefore, where social acceptability and smoker confidence will be substantially influenced. These issues are keenest today in the EFTA markets, but are mounting in Turkey and the GCC.

Product Regulations : Maximum constituent levels are already in place in the GCC and Finland. There are proposals to reduce these still further to quite unacceptable levels from the consumers' viewpoint; and limits could potentially be adopted in all remaining European markets. Health Warning Labels are also a ubiquitous issue.

Developments in the EEC could provide unwelcome benchmarks for our European opponents on many of these issues, so constraining our realistic options.

We will reach out further to public opinion, for which our communications program is specifically designed. The principal elements of this program are:

Newsbureau Network : We shall complete the EEMA network of Newsbureaus by establishing local, in-market PR firms to work in conjunction with Burson & Marstellar under the control of our local managements.

Public Spokesmen : We shall continue to develop our executives as effective public spokesmen, and seek out the opportunities for them to spread our messages. We shall recruit and activate additional "voices/allies" with whom we can creatively market our views.

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Media Relations : Our media relations program will be strengthened to enable us to track journalists' views on important issues, and to facilitate our regular contacts with them.

A vital element in our communications strategies will be the increasing role of smokers' rights groups. On selected issues they have the motivation, credibility and clout that is indispensable. We shall carefully cultivate and assist these groups.

We shall carefully target our opponents. We shall precisely identify, monitor, isolate and contest key individuals and organizations. In Switzerland, we shall exploit the OFSP brochure to discredit privately those behind it to the senior authorities. In Sweden, we shall similarly exploit the recognized excesses of the Smart Promotions publication to demonstrate the unacceptable behaviour of our extreme opponents. In Finland, we shall devise a strategy to attack the Tobacco Law in place, and force our opponents to defend their objectives and tactics. We shall address the international organizations within the strategies defined by PMI.

Government relations are an essential and critical component in our strategies to influence key legislation. Though public opinion carried through our communications program will play an important role, we shall develop other channels, both direct and indirect. We shall identify, contact and lobby relevant officials, for example, by participation in important scientific symposiums and by invitation to address forums like the AECA and the New York Society for International Affairs. Indirectly we shall rely upon the development of third parties, including smokers' groups as official consumer representatives, tobacco growers, and retail trade groups.

To implement our strategies successfully we need to strengthen our resources further. We have in place committed line managers and staff professionals. We shall improve coordination with PMI and PM EEC Corporate Affairs, and make more effective and efficient use of communications and legal advisors. Finally, we shall develop the industry resources. Our goals include a professionally staffed Nordic NMA; a powerful individual to lead the Swiss NMA; a fully functioning Turkish NMA; a professionally staffed Africa Working Group; and a more professional Middle East Tobacco Association that can conduct a higher profile operation.

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SCANDINAVIA/FINLAND

The priority issues for the Scandinavia/Finland Area are: taxation, ETS, marketing freedoms, and duty free.

Taxation

Penal taxation to curb consumption is being advocated strongly by our opponents, frequently citing the alleged social cost of smoking. In Finland, we are conducting two defensive studies in cooperation with Amer-Tupakka (ATO) - a smoking social cost/benefit study; and a household expenditure study that compares smoking and non-smoking households, which will be supplemented with a subsequent study on regressivity. The household expenditure study will be duplicated in the other Nordic countries. In addition we have contracted with Peter Elleman-Jensen, a Danish economist and brother of the Danish Foreign Minister, to publish a critique of an unfavorable Swedish social cost study. We are using Covington & Burling in this effort to recruit and liaise with additional economists.

In Finland, we shall build upon our successful momentum this year to fight against renewed efforts by the health authorities to cut consumption through taxation. We shall strengthen the smokers' club's ability to fight on taxation as a smokers' rights issue. We shall further cultivate relationships with the union movement highlighting the regressive nature of tobacco taxation and its inflationary impact. This is key in Finland, and we shall ensure that tobacco is retained within the CPI.

In Sweden, we are awaiting the draft report from the Magnusson Tobacco Commission which we expect to advocate the use of taxation to curb consumption. As in Finland we shall use the smokers' club, and lobby the labor movement to oppose this move. Again it is vital to retain tobacco within the CPI in the face of efforts to remove it. We are also evaluating the successful UK retailer "Tobacco Alliance" program for adaptation and implementation in Sweden during 1990.

In both Finland and Sweden we are seeking equalization of tax treatment among all tobacco products, particularly snuff in Sweden. In Norway, where roll-your-own is so significant, we have briefed Olav Thon, the owner of our Norwegian distributor Langaard, to lobby party leaders and the Finance Ministry for equal tax treatment.

ETS

We shall expand the Nordic-wide campaign to communicate that ETS is not a health hazard; shift the focus to in-door air quality; implement courtesy and tolerance campaigns to reduce conflict between smokers and non-smokers; and advocate voluntary accommodation to counter government imposed work place and restaurant smoking restrictions.

The Smokers' club movement will continue to be the principal vehicle for persuading the public that the antis have gone too far in creating an atmosphere of conflict. Through the clubs we will identify and publicize examples where individuals have been unreasonably harmed. We will assist the clubs in preparing government submissions, such as the Smokepeace presentation to the Magnusson Commission and the Roykringen whitepaper countering the antis' plans for a Smokefree Norway. We will promote

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cooperative communications efforts among the clubs through vehicle's such as Smokepeace's advertisement in Sweden during November, which features the prominent Finn, Jorn Donner. Their in-market communications program will be enhanced with assistance in organizing press conferences, media interviews, letters to the editor and op-ed pieces. The club leaderships will be strengthened and expanded through the recruitment of younger adult leaders and the operation of the clubs will be broadened through increased support from manufacturers, wholesalers, retailers and suppliers. We will extend the impact of these smokers' clubs beyond the Nordic area by using the 1990 Smokers' Club Congress as a vehicle for starting new smokers' clubs.

The Nordic scientific group, EGIL, has been expanded during 1989 to include a Finn. These independent scientists have joined a newly formed international learned society, The International Association on Indoor Air Quality - Indoor Air International. This society will publish a journal and sponsor conferences. We are following up on the Philip Morris sponsored ETS scientific media briefing in Copenhagen by organizing such briefings in Finland and Sweden.

We shall continue to support industry sponsored courtesy smoking/tolerance advertising campaigns in both cinema and print media. We are currently negotiating with Swedish TV 3, a private channel broadcasting to Nordic countries, to air the Swedish NMA cinema films. The Swedish NMA "cartoon" print campaign is scheduled to run in 1990.

To create a counterforce against government imposed work place and restaurant smoking restrictions, we will develop accommodation programs with employers' organizations and restaurant associations in Finland and Sweden.

We will continue to support Roykringen's initiative in the Norwegian Parliament to reopen the debate on the severely restrictive Norwegian law and to amend Bill 27. As this law does not fully apply to restaurants, we will support an accommodation program through the Norwegian Restaurant Association.

Marketing Freedoms

The most significant threat will be a proposal from the Magnusson Commission to ban tobacco advertising in Sweden. We have persuaded the Federation of Swedish Trade to go public in defending the current system in Sweden; and we are working with the Swedish NMA to prepare advocacy advertisements on the principle of commercial freedom of speech which also communicate how well the TISC (Self-Control Advertising Board) has worked.

In 1989 we successfully prevented the Finnish National Board of Health from forcing Philip Morris to withdraw the international sponsorship of the Belmont Finland II maxi-boat participation in the Whitbread race. This victory, together with the positive public attitudes on tobacco company sports sponsorship reflected in the Benchmark Survey, will be used to launch a campaign to preserve the freedom to sponsor sports.

Our first objective will be to ensure that Nordic governments acknowledge the right of tobacco companies to provide international sponsorship for sports and then we will fight for the right to sponsor sports within the Nordic countries. We will enlist sports heroes such as Keke Roseberg to educate opinion leaders and the public on the benefits of tobacco company sports sponsorship.

On the sports sponsorship and the ad ban effort, we will make full use of the experts PMI has identified to drive the public debate on the issue of advertising's impact on juvenile smoking initiation.

Duty Free

The banning of intra-EEC duty free would bring with it the threat to discontinue duty free between the Nordic countries and the EEC and even to discontinue intra-Nordic duty free altogether. Our objective is to prevent either of these eventualities. We cooperated this year to finalize the International Duty Free Confederation's EEC Economic Impact Study, and will ensure that it is presented and explained to Ministers of Transportation and Customs officials in the Scandinavia/Finland area. We have joined the Danish and Swedish duty free organizations, and have established contact with the Danish economist who has conducted a duty free study for the Danish organization. We plan to commission and drive a similar Swedish or potentially a Nordic wide study as part of our ongoing effort to galvanize the political coalition within the Nordic duty free community.

SWITZERLAND

The Swiss market is experiencing substantially increased anti-tobacco activity, particularly with the spillover effect of the EEC Anti-Cancer Program. To counter this trend we are strengthening the Swiss NMA's capabilities through the appointment of an influential president; expanding our network of government relations contacts in Swiss industry, trade and tourism organizations; enlisting the support of citizens and consumer organizations; using the parliamentary tobacco caucus to open a dialogue with the center-right political parties; and broadening our contacts in the union movement.

Over the Plan period, our issue priorities are the cartel and trade agreements, price control and taxation, marketing freedoms, and ETS.

Cartel and Trade Agreements

Our objectives are to maintain the solidarity of the manufacturers' and trade cartels, and to develop a new trade agreement. We are working to finalize a new trade agreement which will be acceptable both to our NMA partners and to the trade. It will provide for a redistribution of the available trade margin to specific sectors of the retail trade and be more directly linked to the provision of specific services. By satisfying smaller retailers we shall be responding to a concern of the Cartel Commission to protect this sector. In the unlikely event that the trade's cartel should be broken, the new agreement would provide a satisfactory framework for the continuation of an orderly market for a cohesive NMA.

Price Control and Taxation

Our objective is to agree with Customs and Finance officials regular, modest tax and price increases.

Our profit growth is constrained by: the Price Surveillance Office, which has the authority to prevent price increases in the absence of strong

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economic justification; the Cartel Commission which can also review industry margins; and the revision of the Tobacco Law, which is expected in 1992 and could lead to incidence increases because of a desire to align Switzerland with EEC countries.

We have led the industry in persuading Customs and Finance officials to agree to a plan for annual tax and price increases for 1990 and 1991. By this means we should avoid any undue scrutiny by the Price Surveillance Office, and also delay the introduction of a new tax competence being granted by the Federal Council to the Customs authorities before 1992.

Marketing Freedoms

Our objective is to preserve existing marketing freedoms by defeating the current popular initiative to ban tobacco advertising.

The citizens' vote on the initiative and any government counterproposal could occur as early as 1991 but no later than 1994. We shall reactivate the coalition which successfully defeated the tobacco/alcohol ad ban initiative in 1979.

Meanwhile, we shall seek to persuade the Swiss NMA to improve and publicize its Voluntary Code of Advertising. The juvenile smoking issue will be addressed, and we shall be particularly sensitive in advertisements and promotions targeted to younger adults and with regard to untoward sampling.

ETS

Our objective is to positively impact public opinion concerning scientific ETS facts, and to promote courtesy/tolerance among smokers and non-smokers.

The most immediate threat for work place smoking restrictions arises from the development of new regulations implementing the Federal Labor Law. One draft article reads "The employer ensures, within the scope of operational possibilities, that the health of non-smoking labor is not impaired through smoke inhalation". Early in 1990 this draft will be submitted to interested organizations for review and comment, and a final decision is expected during the summer of 1990. We shall seek to amend it so that employers are required to focus on indoor air quality and not just on smoking. To achieve our goal we are preparing for publication by the Swiss NMA a series of brochures and whitepapers with which we can lobby organizations to submit comments on this proposal. We will also publicize the Swiss ACVA study which confirms the minimal impact of smoking on IAQ.

We will expand our ETS accommodation program with the Swiss Cafe and Restaurant Association. We will work via the FTR union to organize an active coalition with Swiss Labor leaders, and cooperate with the newly formed Swissair tobacco study group to ensure that Swissair continues its pro-smoking policy.

We will publish in French and German, in cooperation with PM EEC, the book entitled, "Clearing The Air", and with the assistance of Science and Technology and Covington & Burling will schedule a scientific conference on indoor air quality in Switzerland during 1991.

GULF COOPERATION COUNCIL COUNTRIES

In these six markets our strategy to implement targeted government relations programs as well as extensive technical assistance and training programs has achieved remarkable results. Our Corporate Affairs, Science and Technology and Research and Development personnel have established a close and collaborative relationship with health officials, standards setting regulators and consumer testing laboratory directors. This on-going cooperation and dialogue has earned Philip Morris an invaluable reputation for trustworthiness and objectivity.

The challenge in the coming years will be to develop the communications function to achieve comparable results.

Our priority issues are taxation, product regulations, and marketing freedoms.

Taxation

Our immediate objective is to delay proposed increases in customs duties, and ensure that, when the GCC countries harmonize duties at the level of 50% cif, they also adopt the "Saudi formula" of a high minimum specific duty.

We will continue to use our updated taxation studies to advocate the adoption of a high minimum specific tax, and we are confident that Saudi Arabia will increase the minimum specific tax to SR 40/000 when they increase duties to 50% cif.

During the May 1989 meeting of the Arab Gulf States Health Ministers' Council, they positively responded to Philip Morris supplied argumentation and adopted a resolution advocating the "Saudi formula". The Bahrain and UAE Health Ministers have written to their respective Finance Ministers endorsing this proposal, and we will persuade the Health Ministries in Kuwait, Qatar and Oman likewise to recommend the proposal to their Ministries of Finance.

The Health Ministers' intervention with an amended proposal has clearly slowed down the process by which any GCC-wide agreement on tobacco taxation could be reached. We shall exploit this by lobbying within the quarrelling United Arab Emirates against any increase in incidence. We shall also fuel the debate with a proposal for a wholly specific tax instead of the present ad valorem rate of 30%.

We will also renew our effort to develop an industry consensus favoring a specific tax structure. While BAT, Gallaher and Rothmans are supportive, we will seek to persuade RJR.

We will pursue the duty drawback issue through the GCC's efforts to implement the Unified Economic Agreement and will lobby the GCC Secretariat for Economic Affairs, via the USTR and our consultants, to allow a duty offset/credit for re-exports and stock destruction.

Product Regulations

Our objectives are to prevent further reductions in maximum constituent levels; persuade all Gulf officials to use tolerances in interpreting

testing results; modify labeling regulations; defeat unnecessarily restrictive limits on ingredients; and ensure the adoption and use of proper testing methodologies.

The most immediate and difficult challenge is the pending draft GCC Standard for Cigarettes. Industry submissions explained by the META scientists have succeeded in persuading Bahrain, Kuwait and Oman standards officials that additional amendments must be incorporated within the Gulf Standards. However, as this process continues to be driven by the Saudi Arabian Standards Organization (SASO), we have organized a renewed industry scientific lobbying effort with SASO officials to seek their endorsement for our amendments.

We have persuaded Bahrain Health Ministry officials to resist proposals for further reductions in MCLs and will finalize an industry whitepaper with which to lobby in other GCC states during the coming year.

SASO this year followed Kuwait's lead in adopting our proposal for a standard which permits a 20% testing tolerance. In the coming years we will lobby for the adoption of this standard in the remaining GCC countries.

Our latest initiative to modify labeling regulations has been to persuade the UAE Health Ministry that the requirement to print month and year of production is confusing to consumers and an inappropriate application of food law provisions. With the cooperation of the UAE and the AGSHMC Secretariat this issue has been placed on the agenda for the Health Ministers' Council meeting in December. Adoption of this amendment in that forum will enable us to persuade individual countries to amend their regulations.

We will also lead the industry scientific committee in establishing a dialogue with the Amman-based Arab Standards Organization (24 member countries) to assist them in developing tobacco-related standards.

Marketing Freedoms

Our objectives are to preserve and expand marketing freedoms.

We shall ensure that media owners, particularly in Kuwait and in the Pan-Arab media, continue their opposition to advertising ban proposals. We shall launch an initiative in 1990 to brief them during Formula 1 events on the benefits of advertising and sports promotions.

In an effort to educate working journalists on commercial freedoms issues, we will organize two journalists briefing tours to the USA each year during the plan period.

We have taken a leadership role in developing the GCC chapter of the International Advertising Association and have persuaded META member companies to join the organization along with their advertising agencies. A related initiative being developed in cooperation with PM EEC is to organize with the GCC a chapter of the World Federation of Advertisers.

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TURKEY

Our priority issues are taxation and pricing, marketing freedoms, and the establishment of allies and resources within the market.

Taxation and Pricing

Our immediate objective is to prevent excessive taxation and, therefore, unacceptably high retail pricing for our export products. We must also establish a favorable excise tax and import duty system for locally manufactured products, which is non-discriminatory and predominantly specific in structure, together with freedom from retail price restrictions and controls.

We shall pursue our strategy to lobby the authorities and demonstrate that the extremely high price sensitivity of imported products leads to suboptimal tax revenues at high tax levels.

We shall pursue our tax and price freedom objectives as preconditions for our local manufacturing project. The most contentious issue relates to the official policy to promote the cultivation of locally grown bright tobaccos ultimately to substitute for imports. This promotes the concept of protectionist import duties. We shall oppose these both in principle, and by demonstrating that comparable quality tobaccos cannot be grown locally, particularly Virginia.

Marketing Freedoms

Our objective is first to defeat the advertising ban proposal pending in the Turkish Parliament; and then to reverse the legislation providing for the partial non-deductibility of advertising expenses for taxation purposes.

With the direct intervention of our consultant, with the support of key media owners and through the use of educational materials we shall persuade key members of Parliament and government officials, including the Health Minister, to oppose the adoption of the ad ban.

We shall exploit the publication in Turkish of the IAA sponsored 16 countries study on advertising and juvenile smoking initiation to generate media stories with our messages.

Allies and Resources

Our objective is to put in place the capability to achieve our communication and government affairs strategies.

We shall work closely with Mr. Sakip Sabanci and his organization in order to leverage his experience and contacts on issues of mutual interest.

We shall follow up on our successful organization this year of an industry importers association and during the Plan period persuade TEKEL to join an NMA which is adequately funded and professionally staffed.

We shall put in place a plan to persuade the tobacco growers to form an association and participate in the International Tobacco Growers' Association.

We are also developing a corporate contributions program through a Turkish University, which will award PM funded academic scholarships for young Turkish agronomists and organize agronomy symposiums featuring Philip Morris leaf experts.

We shall activate the IMAGE PR firm and implement in Turkey the Newsbureau communications program. This effort will include the organization of journalists' briefing tours of the USA in cooperation with the Sabanci organization.

We shall develop a cooperative program with the Turkish Standards Organization and TEKEL to adopt international testing methodologies and to train testing officials to implement them.

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OPERATIONS

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E. OPERATIONS

OVERVIEW

The Region is responsible for cigarette production at our Swiss affiliate, FTR, and at our 15 licensees.

REGIONAL VOLUMES BY SOURCE
(millions)

	LE 1989	1990	1991	1992	CAG 1989LE -1992
PM USA	25,323	28,182	28,609	26,418	1.4%
FTR Switzerland	9,592	9,788	10,304	10,744	3.9%
PM EEC	224	311	361	418	23.1%
PM Brazil	3,722	3,427	3,899	4,379	5.6%
Licensees	16,534	16,810	20,271	25,331	15.3%
Total Region	55,395	58,518	63,444	67,290	6.7%
MEMO FTR SALES					
FTR to EEMA	9,592	9,788	10,304	10,744	3.9%
FTR to EEC	2,860	2,568	2,694	2,819	9.5%
Total FTR sales	12,452	12,356	12,998	13,563	2.9%

PM USA will continue to be the primary source for the Region. PM Brazil has become the major source of exports to the Region after USA, due to cost advantages provided in terms of blend and conversion costs.

Local production under license will reach 25.3 billion units in 1992 due to the planned local manufacture in Turkey. The start of local manufacture in Turkey in 1991 will result in a switch from US cigarette exports to the Region to exports of cut filler, basic blend and flavors.

During the plan period, the main challenges will be to:

* ensure adequate production capacity by source to satisfy the Region's volume requirements.

* establish local manufacture in Turkey.

* maintain manufacturing flexibility to satisfy demand fluctuations in volatile export markets, and to meet increasing market segmentation and brand proliferation, as well as compliance with changing product legislation.

* maintain the quality levels of products manufactured under license as close as possible to the quality levels of US and European products.

* supply increasing volumes of value brands which are competitive in terms of cost, quality and sourcing legend.

* support the expansion of our business in Eastern Europe, with both exports and license production, where the latter will warrant greater technical advisory assistance, on-site supervision of production, and involvement in factory renewal programs, potentially including PM equity investment.

FTR

	RF 1989	1990	1991	1992
Factory yield (%) Marlboro	104.7	104.8	105.0	105.2
Quality index (penalty points)	300	280	260	250
Cigarette firmness (mm) Marlboro	3.0	3.0	3.0	2.8
Cigarette rejects (%) (Make/Pack)	4.0	3.8	3.6	3.5
Efficiency (%) (Make/Pack)	79.1	79.2	81.5	83.5
Productivity ('000 cig/labor hour)	15.7	17.9	18.1	18.5

Safety and Security

Safety is a top priority objective. Risks increase with the introduction of more sophisticated high speed equipment and increasing pressure for productivity. To minimize loss to employees, processes, and property we shall:

* provide periodic specialized safety training to personnel working in areas where special hazards exist.

* conduct routine safety audits to identify and correct unsafe practices and unsafe conditions.

* continue employee involvement in searching and solving safety problems.

* promote a pro-active approach to safety by designating in-plant safety groups and actively pursuing effective safety measures.

FTR Serrières and Onnens have limited protection against external, hostile actions. The specific site of Serrières renders such protection difficult and costly. We shall:

* continue to monitor the risk of hostile actions with local and federal police and exchange information with other PM affiliates.

* evaluate potential risks and propose action plans.

* establish a contingency/catastrophe plan.

Quality

Our objective is to produce the best quality products on the Swiss market, and to remain the quality leaders in all market segments in which our products compete.

During the Plan period, FTR will implement the Project Park machinery developments, as well as the primary optimization program aiming to obtain more filling power, less tobacco degradation, improved taste uniformity and firmer cigarettes.

Quality training for all personnel will be required with the introduction of more sophisticated high speed equipment, electronics and changes in materials and processing methods. We shall increase employee involvement in searching and resolving quality problems, and review all consumer complaints with cigarette manufacturing personnel for input on corrective action.

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Cost and Productivity Improvements

During the Plan period, FTR will continue to pursue all opportunities to control and reduce the cost of goods manufactured, without compromising

quality standards. Our objectives over the Plan period are to improve the factory yield by 0.5 %; to reduce cigarette rejects by 0.5 %; and to increase overall efficiencies of make/pack equipment to 83.5 %.

The primary optimization program will increase tobacco yield and reduce labor requirements.

Secondary efficiencies will be increased through the use of automated production information systems for downtime analysis and Project Park improvements.

The filter department will be restructured, replacing old equipment, introducing automatic filter feeding and shooting to makers, and reviewing manning requirements.

Make/pack wastage will be reduced by developing materials more capable of operating on high-speed equipment, and performing audits of waste materials and communicating waste performance factors to all employees.

Output per manhour (SVC) will rise from 15,700 to 18,500 cigarettes over the three year Plan period. Including FME personnel, output per manhour will rise from 9,200 to 10,800 cigarettes.

A new union agreement will become effective January 1991. The negotiation process is now beginning, with opening discussions with the Union. We have maintained good labor relations and expect no major departure from the terms of the current agreement. We foresee no change in the hours worked per week, two or three general wage increases, with wages otherwise rising in line with the cost of living index, and a contract term of 4 to 5 years.

Manufacturing Capacity and Flexibility

During the Plan period, FTR manufacturing capacity and production flexibility will be required to satisfy volume requirements, to meet market segmentation and the increase in brand offerings as well as to comply with changing product legislation. Our objectives are to increase cigarette manufacturing capacity and to maintain flexibility to meet these demands.

Additional secondary capacity is needed to support increased cigarette production requirements. Secondary capacity will be raised by installing two high speed link-up groups, and by implementing all viable technical developments leading to increased productivity.

All opportunities for product and packaging standardization will continue to be explored and implemented, where appropriate, and new brand introductions and product modifications will be handled more efficiently.

We shall reduce the effects of demand fluctuations through the implementation of the logistics study, Concept of Integrated Requirements Planning (CIRP). More flexible working hours will be negotiated with the Workers' Council, and a reserve of qualified polyvalent operators will be assured. Appropriate production equipment will be maintained in ready-to-run condition to be brought into operation on short notice. We shall optimize the machinery mix and minimize downtime during changeovers, in order to achieve the output of more brands from the same machinery.

Production space is a critical constraint with the current brand mix. There is no spare space available for further product diversification or for the introduction of new technologies. We shall evaluate the transfer to the Onnens Warehouse of, for example, filter production, low volume make/pack equipment, cut-rag, and ET. Meanwhile, discussions will continue with communal and cantonal authorities concerning expansion of the FTR site.

LICENSEES

Finland

	RF 1989	1990	1991	1992
Factory yield (%) Marlboro	100	101	101.5	102
Quality index Marlboro	300	290	280	270
Cigarette firmness (mm)	3.0	3.0	3.0	2.9
Cigarette rejects (%) (Make/Pack)	3.8	3.5	3.2	3.0
Efficiency (%)- Link-up	78	80	81	82
Productivity ('000 cig/labor hour)	15.5	16.2	16.9	17.6

Quality

Our objective is to continue to manufacture our brands with a quality superior to the competition.

Modifications are on hand for the latest high-speed HL packer, and these will be extended to the older high-speed packer once expected quality improvements have been achieved.

We shall reinforce the quality commitment of operators and fixers through an improved bonus system based on tobacco usage, efficiency, consumer complaints, and the PM Weighted Quality Index.

We shall work with our licensee to improve the present Incoming Material Control System. NTM quality will also be further enhanced through intensified technical assistance to the four local printers, and cooperation with the local cigarette paper supplier to reduce variations.

Cost and Productivity Improvements

Factory yield will be raised through optimization of the winnowing system; improvement in the cut filler handling/feeding system; and increasing the filling power of stems by increasing the soaking time of the preblended stems.

Productivity of existing and future equipment will be enhanced by:

* evaluating and, if feasible, installing a filter shooting system,
* installing a second cut filler blending and storage silo in order to reduce handling,
* increasing secondary efficiencies through automated production information systems (MIS) for downtime analysis and by selectively implementing Project Park improvements,
* automating finished product handling,
* encouraging ATO to invest in new technologies and equipment which will further increase productivity.

Costs of NTMs as well as wastage will be better controlled. We will negotiate optimal prices from suppliers that are common to both ourselves and our licensee. A bonus payment based on NTM wastage reduction will be evaluated. Standardization of NTM's for different products will be continued.

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Eastern Europe

Maintenance of quality standards will continue to be a critical issue in our licensees' factories. Equipment upgrading and import of tobaccos and NTMs are often necessary conditions for quality improvements for many of our licensees. We will continue with our efforts to train, educate and motivate our licensees' personnel. We will provide technical assistance to improve quality and monitor local tobaccos included in our blends to ensure full compliance with our specifications. During the Plan period, we will organize another "Quality Workshop" during which all quality parameters of EEMA/EEC brands manufactured under license will be evaluated in order to establish action plans where needed for improvements.

In Yugoslavia, We will provide technical assistance for the installation and start-up of 4 Mark 8/Max 3-5/HCF groups in 1990, and 2 Mark 9/Max S/HCF groups in 1991/1992.

In DDR, we will increase the capacity of Marlboro production and start the production of L&M under license. We will implement the manufacture of the joint brand foreseen under Project Hit, when this project goes forward.

In Eastern Europe generally, we will provide the necessary Operations assistance to support our business expansion. In addition to working within existing agreements, we will provide the necessary expertise to evaluate and undertake new ventures, whether they be within the context of a joint cooperation agreement or on the basis of equity participation. We are beginning with an assessment of the Eger Tobacco factory in Hungary, and the Krakow factory in Poland, where the potential to work with tobacco dealers and the local leaf processing operation to rationalize the leaf industry is also under consideration.

Africa

Once approved, we will completely overhaul the necessary make/pack equipment in Nigeria, and relaunch Marlboro produced with cut filler imported from US, with NTMs from Europe. In addition, we will provide technical advisory assistance for all factory functions, as required.

In Egypt, we will support the launch of Merit in 1990. We will negotiate equipment standardization for the production of Marlboro, and ensure that the new manufacturing contract agreement will provide for increased PM control over product quality parameters, regular supply of spare parts, and equipment maintenance.

In Algeria, we will assist the Area in negotiating the planned capacity increases, and support SNTA in implementation. Within the conditions of the new license contract, we will strive to improve operating conditions to secure product quantity and quality, and to include a preventive maintenance program and stock policy for spare parts.

We will also support the Area in the renegotiation of the license agreement for the Ivory Coast, targeting improved operating conditions, and refining the training program. We will also strive to establish an ET add back capability to bring the taste closer to the US Marlboro.

In Senegal, we will commence the manufacture of L&M under licence for 1991. We have determined that the make/pack contingency plan for Senegal is not viable, and thus, we will evaluate the technical and economic viability of other alternatives, such as export from the Ivory Coast to Senegal. We will also refresh our evaluation of the Bolloré Group's holdings in West & Central Africa as part of our broader analysis to determine the feasibility of purchasing Bolloré tobacco assets, in whole or in part.

USA SOURCING

The continued segmentation and sophistication of the Region's markets has been constantly increasing the number of brands and pack executions, further complicating the introduction of new products sourced from the US. The same applies to tobacco and ingredients.

During the Plan period, we will reinforce our technical and human resources to provide more frequent and more accurate forecasting and planning procedures for product ordering, as well as coordination between PMI/PM USA and the Region. We will work together with PM USA to improve information procedures in order to obtain accurate and regular data on new project status to ensure the timely and cost effective introduction of new products in the Region's markets.

BRAZIL SOURCING

Brazil sourcing is an integral part of our value brand strategies. The development of new products in the full flavor and light segments for Africa, Lebanon, and GCC will continue to play a central role in our sourcing strategies. We will closely monitor the production capacity. We will develop contingency plans addressing the capacity situation if volume requirements significantly exceed the current expectations, where contract manufacture with Argentina is a possibility.

FML

We will pursue all possibilities to promote the FML polypropylene filter technology in USSR and DDR to generate hard currency in order to enhance the growth of our business in these countries. Trials are now underway in the DDR.

AGRONOMY

Poland, Yugoslavia and Hungary will remain the key markets where our expertise in agronomy will yield the most positive results in terms of producing tobaccos from which we can benefit, and developing goodwill with our partners.

We will continue our trials in Turkey to grow flue cured tobacco that potentially could be introduced into US-blend products. We will strive to influence the State Planning Organization's study on the economic viability of growing Burley and Virginia tobacco in Turkey, where unrealistic expectations could encourage the retention of the protectionist import duties for tobacco. Competitor moves will also be closely monitored.

LEAF OPERATIONS

With the support of PM USA and EEC Leaf departments, we will select and absorb additional quantities of Eastern European leaf of acceptable quality, to provide necessary hard currency for our Eastern European licensees.

We will continue to monitor all local tobaccos included in our blends in Eastern Europe, to ensure that they are in full compliance with our specifications.

We will assist and advise our licensees in the blending issues related to local leaf inclusion, and assure that they have the necessary personnel to manage the blending, leaf duration, and crop phase-in operations.

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VALUE BRANDS

In the low price segments, value brands will play an important role in our pricing strategies in the GCC, Africa, Levant and Eastern Europe markets. Our efforts to develop this segment in these markets will continue in the following areas:

* Development of a cigarette, ex-FTR, of acceptable taste quality at a lower cost than Visa.
* Development of products, ex-PM Brazil, in the full flavor and Light segments.
* Development of a 100 mm Oriental cigarette for Turkey using domestic grades.
* Development of products using Swiss tobaccos.

REGIONAL PROJECTS

Sauna

We will finalize the development of a channel-ventilated cigarette in response to Barclay. A prototype has been developed for this project using a plastic fluted filter. Concentric and other filters will also be investigated to challenge Barclay in the light of recent changes to test methods.

Paradox

We will develop an 84 mm cigarette with the concentric filter (33 mm filter and 38 mm tipping) for Norway, Sweden, and Switzerland.

The work on filter development will continue. The project requires special production equipment for filter making and prototype development.

TURKEY LOCAL MANUFACTURE PROJECT

Negotiations to form a joint venture owned by PM, Sabanci and Tekel continue with the Turkish authorities. The project assumes that the joint venture will take over the existing Maltepe factory located in Istanbul and owned by Tekel, as well as adjacent land of sufficient size to enable the construction of a new factory for US blend products.

The project envisages the manufacture of PM brands in the existing facility during the initial phase. This production is targeted to begin in mid-1991 on a cut filler basis, with a switch to Basic Blend some 18 months later, once the upgrade of the current Maltepe primary has been achieved. The primary upgrade will include an increase in capacity sufficient to meet the future requirements for Oriental leaf for both Maltepe and PM's Bogazici. In parallel, a new, separate factory for US blend products will be constructed, with full capacity reached in year 4 of the project.

Initial Maltepe volume manufactured in the Maltepe facility will approach 25 billion units. The excess requirements of some 12 billion units will be contracted out to other Tekel factories. By 1996, we will be able to accommodate the total Maltepe volume requirement in the joint venture facility.

With respect to secondary equipment, we will use linked Protos 9000 and GDX1 groups for PM brands. For the Oriental products, there will be a gradual transition from the existing equipment to Mark 9s, as of 1992, and GDX1s, as

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of 1993. This high speed equipment is necessary to reach sufficient capacity within the space constraints to meet market requirements.

The project envisages a 3 shift operation for secondary production, 2.5 shifts for the primary until 1994 and 2 shifts thereafter, with a 6 day work week. There are no legal or union constraints with respect to a 3 shift operation. Today, the Maltepe facility is over staffed by some 1100 persons. We have agreement in principle from the Turkish authorities that the problem of over employment should be resolved by the government and not the joint venture. Redundant employees are expected to be absorbed into other Tekel businesses or retirement arranged.

Discussions with PM management in the US have begun with respect to staffing with respect to the project team, implementing production and fulfilling ongoing requirements once production has started. We intend to identify the project team early next year, with selected individuals expected to support the project on a part time basis.

The project team is expected to see the project through the design, building and installation phase. With the start up of production we will look for support in staffing the facility, training, and follow-up supervision. In addition to direct production labor, we need to address all plant services requirements, as well as administrative functions.

Operations will continue to support commercial negotiations, and undertake any additional technical feasibility studies that may be required within this project.

PROGRESS IN 1989

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F. PROGRESS ON 1989 - 1991 STRATEGIES

This report is structured along the lines of the objectives and priority strategies identified for the Region in the 1989 - 1991 Plan.

1989 UNIT VOLUME, EARNINGS AND MARKET SHARES

The EEMA Region will ship 55.4 billion units in 1989, a 9.6% increase over 1988. US-sourced exports will grow 9.2% to reach 25.3 billion units, and exports from Brazil will rise 72.4% to 3.7 billion units.

Net income for 1989 will be $190.6 million, up 9.2% over 1988. The most notable income growth will come from Turkey - where the growth will be $ 16.1 million, yielding an increase of 22.5% over 1988; and from Scandinavian duty free where income from operations will be up 31.6%.

Record market shares will be registered in all major markets except Saudi Arabia. All Scandinavian markets will show gains, and Finland's share will be up 1.6% points to hit 63.9%. Switzerland will add another 1.0% point to reach 39.4%. The domestic Turkey market share will also rise 1.0% point, to 13.3%. All GCC markets will grow market share, with the single exception of Saudi Arabia where our premium share growth has not been matched in the expanding cheap segment. Market shares are up throughout Eastern Europe; particularly noteworthy are the increases in the profitable and growing hard currency business, with Poland exports up 10.2% points to 45.1%, and Yugoslavia up 0.5% points to 40.0%. In the Levant, market shares are up in Lebanon and Iraq. The Mahgrebian markets of Algeria, Morocco, and Tunisia will also all record increases in market share.

PEOPLE

We have re-evaluated the deployment of our field staff in support of HRP objectives, resulting in reorganizations which both strengthen and rationalize our resources.

Staffing and the development of current local staff remain the priorities in Scandinavia/Finland. With the appointment of a new Area Director and the hire of a highly competent Area Manager Sweden, efforts are now focusing on the need identified in our Human Resource Planning process to test and develop local staff and strengthen the middle management level (and succession) across the Area. As part of an aggressive recruitment campaign for Scandinavian/Finnish graduates from leading US universities, one trainee has been hired and further trainee positions will be filled to strengthen local succession. This effort will also address the problem of employing local staff with the required geographic mobility.

The EPSAS organization in Turkey has accomplished most of its major staffing goals in support of market growth. A new District has been opened in Trabzon. The training, development and increased professionalism of existing staff, particularly in the Field Force (which will number 95 as of October, 1989) is a high priority.

In Switzerland, a new organization structure has been implemented. This addresses the need for increased development of current talent, and will resolve potential organization blockages which have remained a key Human Resource Planning issue. The recruitment and development of HEC (business graduates) continues as existing trainees are being developed through a structured series of assignments. Two additional trainees are anticipated for hire in the coming year. The rejuvenation of the Swiss Sales Force has been assisted through the appointment of a capable new Vice Director of Sales.

The Middle East Area has been reorganized to address the need to streamline headcount, increase coordination/linkages with strategic HQ functions and decrease heavy Area staff infrastructure. The reorganization was based on the closure of the Bahrain Office and the return to Lausanne of the Area Director. Existing staff were redeployed and/or relocated to new positions and two former Middle East staff assumed positions with the HQ Marketing function, providing some continuity to Middle East issues from their new positions.

The African organization has been reconsolidated and rationalized through the appointment of a General Manager for West and Central Africa and the closure of the Cameroon field office. As part of our Human Resource Planning Process, the new organization will be reviewed in terms of strengths and weaknesses to identify corrective structural/staffing action.

Together these two reorganizations have saved $3 million.

The important markets in Eastern Europe and the Soviet Union have been restructured and strengthened, and several appointments/promotions have been made in this regard. To ensure that identified growth opportunities are given the necessary managerial focus, the General Manager USSR now reports directly to the General Manager Levant & Iraq. An US national who is fluent in Russian has been hired to complete staffing for USSR work.

The Region has 15 incumbents in trainee or developmental positions with 7 recruited in the last 12 months. Over the same period, the Region has experienced the following movements in the managerial group: 16 hires, 23 promotions, 11 transfers, 16 lateral moves and 10 upgradings.

PRICING

Duty Free: Price increases have been regularly implemented in virtually all duty free markets. The net FAS price for Marlboro in Scandinavian duty free ranges from $29.76 to $31.00/ 000, in Turkey duty free it is $26.93. In the Yugoslavia hard currency business it is $28.03; and here we were instrumental in persuading our agent and, therefore, the industry to hold retail prices and absorb the additional tax imposed during the year.

Turkey: The FAS price for the domestic market has been held throughout the year at $19.10/ 000. Competitors lag our price by around $2 which has caused Tekel to set PM brands at a retail price premium over other international brands. This premium was increased during the year from TL 200 to TL 300/ pack. Though domestic inflation is running at 70-80% per annum, the retail price increases implemented throughout the year have only taken the Marlboro price from TL 2200 to TL 2600/ pack. Our pricing policy has permitted a recovery in the international segment which was severely squeezed in 1988.

We have obtained a commitment to permit free retail pricing once local manufacture has been established.

Switzerland: We have been successful in formulating an agreement in principle between the NMA cartel and the Finance authorities to implement a phased program of ex-factory price increases in conjunction with excise tax increases. The fundamental aim, thus, was to avoid any scrutiny by the Price Surveillance Office. Accordingly, the Marlboro price was raised from SFr 2.80/ pack to 2.90, from which we receive $0.21/000 in 1989. But more importantly, we are also confident in concluding further increases for both 1990 and 1991, which together will raise the pack price to SFr 3.20. This will be a major achievement.

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Finland: During the year there have been two retail price increases with another in view for January 1990. Thus, retail prices are moving slightly ahead of inflation. At both retail price increases we have constrained the Marlboro price in order to avoid widening the price premium above the domestic brand segments. We have been rewarded by share growth.

GCC: Throughout the year there has been the expectation of an imminent increase in the import duty in the four markets of Saudi Arabia, Kuwait, the UAE, and Qatar which are still at 30%. Here premium retail prices have held constant whilst price competition has been occurring lower down the price spectra. We have repositioned L&M in Saudi Arabia at SR 13/ carton to compete with Gold Coast, and held Visa below at SR 10.

Morocco: Pressure has also been applied to Winston in Morocco. At the time of an imposed retail price increase we realigned our FAS price down to $17.16/ 000 from $17.60 to achieve parity with Winston and thereby prevent a retail price premium being imposed on Marlboro.

MARLBORO

The Marlboro family goes from strength to strength. Shipments for the family will grow 6.4% to 36.7 billion in 1989. Red will increase by 4.4% to 32.2 billion, Lights by 23.2% to 4.0 billion, and Menthol and Lights Menthol by 18.5% to 0.5 billion.

Red continues to gain overall market share even in established markets where the taste preference is moving to LTN, as in Switzerland, Sweden, Norway, and most of the GCC. At the same time Lights are going from strength to strength to capitalize on this taste trend. Red remains the spearhead and motor of our growth in the less mature markets of the Region.

Turkey: Total family shipments to the domestic and duty free markets will gain 13.3% and will total 11.5 billion units in 1989. Marlboro's share of duty free will grow 1.7% points to 71.3%, and its domestic share will climb 0.3% points to 10.4%. It should be noted that Marlboro had lost share in the domestic international segment relative to Parliament which had been less affected when real retail prices were raised during 1988. However, Marlboro is now benefiting more than Parliament as smokers are trading up from the domestic brands.

Switzerland: Marlboro Red will show a resurgence in 1989. Its domestic market share will rise 0.3% points, whilst Marlboro Gold will add 0.8% points, taking the total family up from 18.5% share to 19.5% in 1989. This is particularly gratifying since Marlboro's acceleration seems to be at the expense of Camel, which has been the objective of our sustained marketing initiatives. Total Marlboro shipments will grow 5.9% to attain 3.1 billion units.

Finland: Despite Marlboro Red slipping back 0.9% points to 34.6% market share, the total family will nevertheless continue to grow by 0.3% points to a record 46.0%. Marlboro Lights Menthol is responsible for 0.9% points of this growth, and will achieve a market share of 1.4%. Marlboro shipments will increase by 46 million units to 3.5 billion.

GCC: Marlboro volume will increase in all six GCC markets in 1989, and market share will grow in all but Saudi Arabia. Both Red and Lights participate in the share growth in the smaller five markets. In Saudi Arabia, Lights will add 0.3% share points, whilst Red will edge down 0.6% points to 23.9% market share. The problem in Saudi Arabia is the continued expansion of the cheaper segments. However, even here Marlboro will actually rise 3.3% points to 63.8% share of the premium plus segment; and the recent trend promises an improvement in the overall market share. The

total Marlboro shipments for all GCC markets will be up 8.4% to 6.4 billion units.

BRAND LAUNCHES

The 22 brands and 8 line extensions launched in 1988 will account for more than 2 billion units in 1989. During 1989 a further 37 brands and line extensions will have been launched across 28 markets, of which 12 are hard currency/duty free.

Marlboro Red Soft was introduced in Morocco.

Marlboro line extensions will have been introduced in Sweden (Lights 10s box and Light Menthol), Norway (Lights Menthol 10s box), Hungary hard currency (Lights Menthol), Bulgaria hard currency (Lights box), CSSR (Lights box and Lights Menthol Box), USSR duty free (Lights Menthol), Reunion (Lights box), Mauritania (Lights box) and Togo (Lights box).

L&M is newly entered in Equatorial Guinea, UAE duty free, Oman and Qatar. L&M Lights is a new line extension in Saudi Arabia, Kuwait, UAE, Qatar and Bahrain.

Chesterfield will have been introduced in Reunion, Lebanon, and the duty free markets of Turkey and Bulgaria.

Philip Morris Lights American is a new brand in DDR hard currency and Reunion as is Philip Morris Ultra in Switzerland duty free, following its successful domestic launch in 1988.

The other 1989 launches are Merit Ultra in Scandinavia duty free and Egypt duty free; Merit in Hungary hard currency; Visa Lights in Saudi Arabia; Congress in Guinea, and Kuwait (regular and Lights), Benson & Hedges de Luxe in Senegal, Benito and Guinea; and Bond Street (Virginia) in Benito is imminent.

DISTRIBUTION AND FIELDFORCES

We continue to make big strides through our emphasis on the supply side of our business.

We have restructured our entire distribution system for the hard currency shop business in Yugoslavia. The management of this consignment stock operation is now fully computerized; and we have introduced the use of forwarding agents from our agent's warehouses to enable direct distribution to all retail outlets, which have risen to more than one thousand. Thus, we have overcome out-of-stock problems as well as establishing improved control; and have gained share.

The study to switch to own-distribution in Sweden has been finalized, and is ready for implementation when the timing is deemed right.

The vitally important inland-distribution system in Turkey has been operated smoothly and provides a critical competitive advantage in ensuring superior distribution in a difficult environment. Our local organization has been expanded, and strengthened in terms of quality, to enabling us to broaden our geographical coverage and intensify our field operations.

In Switzerland we have finalized a proposal for a new agreement between the ASFC (NMA) and the trade which provides for a more direct linkage between remuneration and services provided to the manufacturers. It redistributes the trade's income towards those retail sectors that are more deserving, and will also favor the bigger brands.

In Lebanon, despite the environmental situation which has interfered with our plans, we have still managed to establish a substantial local organization of over 40 people operating throughout the country.

We have also strengthened our field capability in a number of other markets including Iraq, Saudi Arabia and Kuwait.

Key account management has been the focus of much attention, encompassing DPP concepts, shop layout, merchandising hardware, training and promotions. The EEMA-initiated effort towards service stations is being implemented in several markets with Mobil, BP, and Statoil. We are collaborating with Southland Corporation (7-Eleven) in Sweden, and in Turkey where we obtained their tobacco trading license for them.

Trade incentive schemes have been implemented in various markets. These are designed to improve the level of in-store inventory and the quality of facings by rewarding all levels of personnel for performance. Concepts include the Brand Display Award, the Mystery Shopper, and Click-the-Winner.

Merchandising materials continue to be a priority and several innovations have been successfully developed. A major improvement has been effected in shop fronts in Turkey with window freezes for Marlboro and a total shop concept for Parliament.

PRODUCT QUALITY, COSTS AND SOURCING

Product quality remains our priority objective.

At FTR in Switzerland, we maintain our leadership position in the market with 273 penalty points compared with the next closest competitor, BAT, at 397 points. Marlboro comes out on top with only 153 points. A significant contributor to this performance has been systematic training accompanied by the introduction of a continuously updated quality information system.

In Finland, the quality remains excellent and rivals FTR. Consumer complaints have fallen in five successive years by a total of 30%.

The quality performance in virtually all licensee factories remains good, being at least equal to, if not better than, last year. Yugoslavia, in particular, registered the eighth consecutive year of improvement.

The replacement machines introduced in the DDR in 1988 have enabled improvements to be achieved, with penalty points reducing from 900 to 500. Fresher product resulting from West Berlin sourcing has also improved smoking characteristics.

A quality seminar involving TTG as well as regional personnel found that smoking subjectives has been further improved over the last two years for locally manufactured products. Yugoslavia and Poland could still be further improved but for the limitations of the local tobaccos.

The workshop also examined all locally printed materials, finding very few out of standard, and these are in process of rectification. This pleasing result stems from extensive upgrade activities undertaken in recent years.

The troublesome spotting problem occurring with Brazilian sourced product on the African markets has been overcome through attention to the primary operation and packing (film sealing), and to improvements in the transport, storage and distribution.

Though quality is the priority, costs continue to be squeezed. At the FTR factory, productivity is up 7%, and waste down from 3.2 to 2.7%, together

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worth $1 million. Benefits from the primary optimization program will be reinforced with the introduction of the Park developments commencing at the end of 1989.

The benefits, for example in better degradation, are now being seen from the primary upgrade that has been completed in Yugoslavia. The upgrade of the secondary section is now being undertaken.

Value brands are of growing importance to the Region.

The value brands sourced from Brazil continue to gain acceptance. The volume has grown from 2.2 billion in 1988 to 3.7 billion in 1989. The number of brands has risen from 3 to 5, with additional destinations bringing the number of brand variations to a total of 17.

Cost is particularly critical for value brands. Attention has been focused on Visa, which is manufactured at FTR for the GCC markets. Its SVC has been brought down by SFr 1.29/000 through judicious blend and printing changes.

Standardization has a major role to play in combating costs. We have made significant progress in reducing versions of pack texts and, therefore, of printed materials. Alignment of packs to recently agreed EEC standards has also brought benefits here as well as enhancing consistency.

We have reached agreement with Tekel to permit us to have the banderoles for the Turkey domestic market printed in the USA. This will bring advantages, not only in materials handling, but particularly in terms of manufacturing efficiency and flexibility as well as freight cost savings.

The Concept of Integrated Materials Planning (CIRP) is being implemented to provide FTR with regular, accurate requirement planning information. This will promote further cost efficiencies throughout the whole order/supply chain. CIRP has been devised so that these benefits could also be provided to other manufacturing sources for the Region in 1990.

NEW BUSINESS INITIATIVES

Turkey - Significant progress has been achieved this year in the substance of our negotiations for the joint venture project. The principle of acquiring the Maltepe factory with a long term license for the 37 billion unit Maltepe brand has been agreed; as has the joint venture shareholding giving PM control with 65%, Sabanci 20%, and Tekel 15%. PM brands will be licensed at a royalty of 6.5% of the net factory price, with a similar royalty to be paid for Maltepe. We have insisted that taxation changes are a necessary pre-requisite for local manufacture, and a package has been developed following our input and will be further discussed with us prior to submission to the Council of Ministers. The important principle of retail price freedom has also been established as a pre-requisite. Tekel has agreed to undertake distribution on a cost plus basis, and has accepted a joint team to determine an accurate costing and to recommend improvements. The need for parallel imports during the transition period to build up local capacity has been accepted. The key outstanding issues are the valuation of the Maltepe facility; and the definitive terms for the Maltepe license.

USSR - The project to manufacture Marlboro under contract in India for export to the USSR under the bilateral trade agreement encountered some difficulties with the Indian Ministry of Finance. The lack of hard currency exports and the high usage of imported materials were the stumbling blocks. However, we have since increased the proposed usage of Indian NTMs, and are also arranging the purchase of Indian tobacco exports which should sweeten the deal sufficiently to gain Indian acceptance. Meanwhile we expect

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approval from the Soviets in principle and to secure cigarettes within the trade agreement for implementation in 1991.

To provide the necessary hard currency to manufacture under license in the USSR we have explored a number of projects:-

The FML opportunity is being pursued, and we are at the stage of obtaining Soviet polypropylene chips and finalizing a complete feasibility study.

An opportunity has been identified to purchase and export 20,000 tons per annum of aluminum scrap. This would be worth $20-30 million. Potential customers are Reynolds Metals or Pechiney, with whom Miller and KGF are influential clients. This is being pursued.

Jordan - A proposal has been made to the Jordanian Tobacco Company to manufacture Congress under license for export duty free to Saudi Arabia. This was favorably received. A critical factor will be retention of cigarettes within the bilateral trade agreement for 1990.

CORPORATE AFFAIRS

Resources - The internal resources have been built up during the year. The budgeted resources are for 6 people in the Nordic Area, 4 in the GCC, 3 in Turkey, 5 in Switzerland, and 6 in the Regional HQ. Of these 24, we currently have 19 on board.

Externally, the Burson-Marstellar program has been established alongside the Covington & Burling effort to provide a rapidly expanding capability to merchandise and communicate our CA messages, particularly in the ETS area. Local B-M partners have been established in Finland, Turkey, and the GCC.

Of particular note is the establishment of flourishing Smokers' Clubs in Finland, Sweden, Norway, and Denmark. These have made their marks in the media; and importantly are being accepted by the authorities as smokers' representatives.

Within the industry we have been prime movers in developing the Africa Working Group, the Middle East Tobacco Association, and the Importers' Working Group/Turkey. Additionally, we are slowly bringing the Nordic NMA's and international companies together using the ETS issue as a catalyst for a formal organization.

We have also joined the Danish, Swedish, Nordic, and Swiss duty free organizations and are leading them in defense of the duty free business.

Taxation - The penal tax proposed by the Minister of Finance in Finland was defeated. In Sweden, tobacco stayed within the CPI, so moderating the tax increase. The tax burden on the hard currency business was reduced in Yugoslavia. In the GCC we expect the member states to adopt a minimum specific element in the duty structure. Detailed taxation proposals for the domestic markets have been prepared and submitted to the Finance authorities in Turkey and Yugoslavia; both of which are pending further developments. Argumentation and documentation have also been prepared to change the tax system in the Cote d'Ivoire and Egypt, and to bring down the import duties in Nigeria and Guinea. We have prepared argumentation for our distributor in Norway and are optimistic concerning the equalization of the tax burden between cigarettes and RYO. We are driving a number of studies and activities within the EFTA countries to protect the duty free businesses in the event that intra-EEC duty free is discontinued.

<u>Smokers and Restrictions</u> - The development of Smokers' Clubs and the communications program based on B-M have provided a quantum leap forward in the defense of smokers' rights. Significant media exposure has resulted in the Scandinavian countries. In Sweden, in the major northern county the mandated smoking ban in public buildings has been withdrawn in favor of a more flexible approach. Also in Sweden, a major city has seen its ban on restaurant smoking overturned in the courts.

We have been active in merchandising our in-flight air quality messages. In Turkey we anticipate a reversal of the smoking ban on domestic flights. Swissair has adopted and advocates a pro-smoking policy.

We have completed an extensive indoor air quality study in Switzerland which is providing useful to the debate on workplace smoking legislation.

<u>Constituents and Warning Labels</u> - Together with Shook, Hardy & Bacon we have developed a basic scientific paper addressing MCL's, and we have tailored individual papers from it for Finland, Switzerland and the GCC.

The UAE Minister of Health has proposed to the Arab Gulf Health Ministers' Council to drop the requirement for the month and year of manufacture to be printed on each pack.

Standards officials in Saudi Arabia and the GCC have accepted advice in the development of the forthcoming GCC Standards for Cigarettes. Meanwhile, Kuwait and Saudi Arabia have adopted +/-15% and 20% testing tolerances (depending on the sampling method) for smoke constituent levels.

Our partner in CSSR negotiated changes to the proposed HWL from the front of the pack and obtained an attribution.

<u>Marketing Restrictions</u> - The CRU studies that have been concluded in Kuwait, Sweden, Switzerland, and Turkey are being distributed; as is the 16 countries' report of the IAA wherein these studies are included.

We have provided technical support for the statistical analysis of the alleged impact of ad bans on consumption, one result of which has been a published article by Boddweyn refuting the damaging Chetwynd study in New Zealand.

<u>The Single European Market</u> - In addition to the threat of the intra-EEC duty free ban, tax harmonization spillover could effect EFTA countries in the field of structure. We have provided documentation to the Customs authorities in Switzerland to help prevent this. Conversely, we view EEC developments as a catalyst for change with the Finance Ministry in Finland; and we are prepared to enter the debate in Denmark where the opportunity exists to bring tobacco taxes down.

MANAGEMENT INFORMATION SYSTEMS

The HQ ICS department was reorganized and strengthened during 1989, including the appointment of a Manager ICS and the streamlining of functions between HQ and FTR.

Both HQ and FTR participated actively in the Index Study. Based on the initial recommendations from the project team, the European ICS reporting lines were changed, and EEMA HQ ICS now reports to the Vice President Business Systems Europe.

EEMA HQ was the first affiliate to convert to the European Data Center. The migration from the VM to the MVS operating system at HQ was successful, and

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FTR started preparing for its conversion, scheduled for the second quarter 1990.

CIRP (Concepts of Integrated Requirement Planning), a modern and user-friendly system designed to improve production planning was developed. The decentralized part of CIRP (PC based) enables all field offices to manage current and planned shipments, stock movements and sales by customer and brand. Once a month, the 14 months rolling shipments forecast is transmitted to the mainframe computer in Lausanne, consolidated and then, dispatched to the factories. CIRP will allow a more accurate and timely production planning as well as the opportunity to proactively influence our customers to place orders on time, reducing out-of-stocks and air freight costs.

A system to manage the Yugoslavia duty-free distribution was developed and implemented. The application enables a better control of the consignment stock, provides a tool for an efficient distribution to the sales outlets, and speeds up the payment process.

An Executive Information System was successfully implemented at EEMA HQ. It provides EEMA executives with a user-friendly tool to quickly retrieve key regional business data.

Based on the European strategy to use Systems Applications Program (SAP) packages in the areas of Finance and Manufacturing, FTR implemented the SAP Fixed Assets module.

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REGIONAL SCHEDULES

G. REGIONAL SCHEDULES

REGIONAL P&L

VARIANCE FROM LAST YEAR'S PLAN AND COMPARISON WITH EARLIER PLANS

REGIONAL UNIT VOLUME & INCOME FROM OPERATIONS FOR TOP 10 MARKETS

REGIONAL VOLUME, BY SOURCE

REGIONAL BRAND DEPENDENCE

REGIONAL HEADCOUNT SUMMARY

FOREIGN EXCHANGE RATE ASSUMPTIONS

Schedule R-1

EEMA REGION - INCOME STATEMENT

($000 unless otherwise stated)

	1989 LE	1990 OB	1991	1992	% CAG 1989-1992
Unit Volume (million units)	55,395	58,518	63,444	67,290	6.7 %
Net Sales	$1,138,000	$1,222,521	$1,339,444	$1,431,183	7.9 %
Royalties & Other	40,500	41,744	51,556	65,779	17.5
TOTAL OPERATING REVENUES	1,178,500	1,264,265	1,391,000	1,496,962	8.3
Standard Variable Cost	338,900	376,881	421,067	454,085	(10.2)
Cost Deviations	4,800	10,611	11,279	11,202	(32.6)
Foreign Excise Tax	255,500	257,728	274,273	290,932	(4.4)
Shipping Expense	6,700	7,396	8,313	8,953	(10.1)
LIFO Adjustment	2,100	1,724	1,869	1,953	2.4
MARGINAL CONTRIBUTION	570,500	609,925	674,199	729,837	8.6
Fixed Manufacturing Exp.	84,000	95,570	104,269	105,375	(7.8)
AVAILABLE PROFIT	486,500	514,355	569,930	624,462	8.7
Direct Marketing	96,400	96,122	101,853	108,844	(4.1)
Promotional Expenses	800	1,556	1,724	1,912	(33.7)
Indirect Marketing	69,100	65,895	71,817	71,337	(1.1)
General & Administrative	32,300	34,145	34,494	36,951	(4.6)
Research & Development	6,100	6,025	6,236	6,554	(2.4)
Currency (Gain)/Loss	500	-	-	-	100.0
Other (Income)/Expense	-	56	-	-	-
INCOME FROM OPERATIONS	281,300	310,556	353,806	398,864	12.3
Income Taxes	97,300	107,533	121,793	136,848	(12.0)
FSC Tax Credit	(6,600)	(6,600)	(6,600)	(6,600)	-
NET INCOME	$190,600	$209,623	$238,613	$268,616	12.1 %

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Schedule R-1a

Total Region
Comparison With Last Year's Plan

(US $ millions)

	1990-1992 Three Year Plan			Last Year's Plan			Fav./(unfav.)		
	1989 LE	1990 OB	1991	1989	1990	1991	1989 LE	1990 OB	1991
UNIT VOLUME (billions)	55.4	58.5	63.4	55.7	60.4	65.3	(0.3)	(1.9)	(1.9)
TOTAL OPERATING REVENUES	$1,178.5	$1,264.3	$1,391.0	$1,242.1	$1,350.9	$1,452.9	($63.6)	($86.6)	($61.9)
MARGINAL CONTRIBUTION	569.7	608.4	672.5	601.9	645.5	683.3	(32.2)	(37.1)	(10.8)
Direct Marketing	96.4	96.1	101.9	107.5	116.5	117.6	11.1	20.4	15.7
F.M.E.	84.0	95.6	104.3	84.1	87.3	88.2	0.1	(8.3)	(16.1)
Indirect Marketing	69.1	65.9	71.8	68.7	73.1	69.9	(0.4)	7.2	(1.9)
G. & A.	32.3	34.1	34.5	35.4	36.7	38.2	3.1	2.6	3.7
R & D	6.1	6.0	6.2	6.0	6.0	6.3	(0.1)	-	-
Other (Income)/Expense	0.5	0.1	-	-	-	-	(0.5)	(0.1)	-
Total Expenses	288.4	297.8	318.7	301.7	319.6	320.2	13.3	21.8	1.4
INCOME FROM OPERATIONS	$281.3	$310.6	$353.8	$300.2	$325.9	$363.1	($18.9)	($15.3)	($9.4)

TOTAL REGION: SUMMARY OF 1987, 1988, 1989 AND 1990 PLANS

PM Unit Volume (billions)	1986	1987	1988	1989	1990	1991	1992	Plan Period Growth
1987 Plan	45.3	49.3	53.0	56.0	-	-	-	7.3 % CAG
1988 Plan	-	48.4	51.7	56.1	60.3	-	-	7.6
1989 Plan	-	-	51.2	55.7	60.4	65.3	-	8.4
1990 Plan	-	-	-	55.4 LE	58.5	63.4	67.3	6.7
Actual	46.1	48.8	50.6	55.4 LE				
Income from Operations ($ millions)								
1987 Plan	213.3	245.4	280.8	333.3	-	-	-	16.0 % CAG
1988 Plan	-	238.7	274.5	324.2	362.2	-	-	14.9
1989 Plan	-	-	260.8	300.2	325.9	363.1	-	11.7
1990 Plan	-	-	-	281.3 LE	310.6	353.8	398.9	12.3
Actual	212.3	237.7	257.1	281.3 LE				

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Schedule R-2

INCOME FROM OPERATIONS BY MARKET

	Income from Operations ($000) 1989 LE	1990 OB	1991	1992	CAG % 89LE-1992
1 Turkey	87,500	105,057	115,689	129,082	13.8 %
2 Switzerland	62,500	57,759	64,761	69,308	3.5
3 Finland	34,500	37,403	41,277	47,431	11.2
4 Saudi Arabia	43,900	38,400	38,793	41,316	(2.0)
5 Yugoslavia	11,800	14,347	17,529	19,637	18.5
6 Kuwait	16,700	14,125	14,298	13,835	(6.1)
7 Sweden	5,700	6,271	8,575	12,552	30.1
8 Scandinavia DF	6,700	8,111	9,865	11,427	19.5
9 Cyprus Exports	3,300	7,002	9,024	10,968	49.2
10 Poland	6,000	7,563	8,878	10,444	20.3
Top Ten Markets	278,600	296,038	328,689	366,000	9.5
Other Markets	49,400	63,600	76,672	90,848	22.5
Total Areas	328,000	359,638	405,361	456,848	11.7
Regional Items					
HQ G & A	(24,500)	(25,168)	(25,688)	(27,503)	3.9
HQ Marketing/Ch.Stewart	(3,500)	(3,517)	(3,821)	(4,072)	5.2
R & D	(6,100)	(6,025)	(6,236)	(6,554)	2.4
Regional DME	(12,800)	(13,809)	(15,046)	(19,122)	14.3
Other	200	(563)	(764)	(733)	N.D.
Total Region	$281,300	$310,556	$353,806	$398,864	12.3 %

UNIT VOLUME BY MARKET

	Unit Volume (millions) 1989 LE	1990 OB	1991	1992	CAG % 89LE-1992
1 Turkey	11,485	12,645	14,077	15,242	9.9 %
2 Switzerland	6,450	6,512	6,642	6,803	1.8
3 Saudi Arabia	5,175	5,138	5,419	5,127	(0.3)
4 Finland	4,790	4,883	4,995	5,100	2.1
5 Cyprus Exports	3,815	3,598	3,730	4,010	1.7
6 Yugoslavia	2,205	2,330	2,495	2,630	6.1
7 Sweden	1,200	1,275	1,400	1,510	8.0
8 Poland	915	1,100	1,225	1,350	13.8
9 Kuwait	1,385	1,238	1,247	1,280	(2.6)
10 Scandinavia DF	545	600	660	720	9.7
Top Ten Markets	37,965	39,319	41,890	43,772	4.9
Other Markets	17,430	19,199	21,554	23,518	10.5
Total Region	55,395	58,518	63,444	67,290	6.7 %

2500066270

Regional Volume by Source

(millions)

	1989 LE	1990 OB	1991	1992	CAG LE 1989-92
US Exports	25,323	28,182	28,609	26,418	1.4%
Affiliate Exports					
FTR Exports	3,217	3,368	3,807	4,112	8.5
EEC Affiliates	224	311	361	418	23.1
PM Brazil	3,722	3,427	3,899	4,379	5.6
Subtotal	7,163	7,106	8,067	8,909	7.5
Affiliate Domestic					
FTR Switzerland	6,375	6,420	6,497	6,632	1.3
Licensee\Third Party Production					
Licensees	14,884	14,986	18,447	23,507	16.5
PM Nigeria	1,650	1,824	1,824	1,824	3.4
Subtotal	16,534	16,810	20,271	25,331	15.3
Total Region	55,395	58,518	63,444	67,290	6.7%
MEMO FTR SALES					
FTR TO EEMA	9,592	9,788	10,304	10,744	3.9%
FTR TO EEC	2,860	2,568	2,694	2,819	9.5
TOTAL FTR SALES	12,452	12,356	12,998	13,563	2.9%

2500066271

BRAND DEPENDENCE

	(millions) 1989 LE	1990 OB	1991	1992	CAG 89/92	(% of regional total) 1989 LE	1990 OB	1991	1992	CHANGE 92-89 (pts)
Marlboro Red	32,215	34,152	36,699	38,530	6.1%	58.2%	58.4%	57.8%	57.3%	-0.9%
Marlboro Lights	4,045	4,651	5,346	5,710	12.2%	7.3%	7.9%	8.4%	8.5%	1.2%
Marlboro Ultralights	-	-	189	367	-	-	-	0.3%	0.5%	0.5%
Marlboro Menthol	300	300	303	307	0.7%	0.5%	0.5%	0.5%	0.5%	-0.1%
Marlboro Lights Menthol	155	195	248	285	22.5%	0.3%	0.3%	0.4%	0.4%	0.1%
Total Marlboro	36,715	39,297	42,785	45,199	7.2%	66.3%	67.2%	67.4%	67.2%	0.9%
Chesterfield	4,000	4,015	4,234	4,499	4.0%	7.2%	6.9%	6.7%	6.7%	-0.5%
Parliament	2,355	2,614	2,957	3,182	10.6%	4.3%	4.5%	4.7%	4.7%	0.5%
L & M	1,730	1,895	2,355	2,820	17.7%	3.1%	3.2%	3.7%	4.2%	1.1%
Bond - Sweden	200	175	150	125	-14.5%	0.4%	0.3%	0.2%	0.2%	-0.2%
Bond Street - Brazil	1,815	1,675	1,820	1,960	2.6%	3.3%	2.9%	2.9%	2.9%	-0.4%
Bond Street - Other	505	500	516	521	1.0%	0.9%	0.9%	0.8%	0.8%	-0.1%
Total Bond/Bond Street	2,520	2,350	2,486	2,606	1.1%	4.5%	4.0%	3.9%	3.9%	-0.7%
Belmont	1,380	1,451	1,504	1,562	4.2%	2.5%	2.5%	2.4%	2.3%	-0.2%
Muratti	1,505	1,483	1,437	1,430	-1.7%	2.7%	2.5%	2.3%	2.1%	-0.6%
PM Extra/Lights/ Superlights/Ultra	490	641	773	911	23.0%	0.9%	1.1%	1.2%	1.4%	0.5%
Merit	610	685	783	868	12.5%	1.1%	1.2%	1.2%	1.3%	0.2%
Link	800	778	778	778	-0.9%	1.4%	1.3%	1.2%	1.2%	-0.3%
Congress	390	356	497	639	17.9%	0.7%	0.6%	0.8%	0.9%	0.2%
Visa	664	508	535	589	-3.9%	1.2%	0.9%	0.8%	0.9%	-0.3%
Target	430	573	573	573	10.0%	0.8%	1.0%	0.9%	0.9%	0.1%
Brunette	761	781	643	533	-11.2%	1.4%	1.3%	1.0%	0.8%	-0.6%
Green Spot	375	448	448	448	6.1%	0.7%	0.8%	0.7%	0.7%	0.0%
Multifilter	225	236	241	243	2.6%	0.4%	0.4%	0.4%	0.4%	0.0%
Eve	60	67	77	87	13.0%	0.1%	0.1%	0.1%	0.1%	0.0%
Benson & Hedges	10	27	57	75	95.7%	0.0%	0.0%	0.1%	0.1%	0.1%
North Pole	71	60	55	48	-12.2%	0.1%	0.1%	0.1%	0.1%	-0.1%
Lark	34	35	38	36	2.2%	0.1%	0.1%	0.1%	0.1%	0.0%
Flint	55	48	41	33	-15.9%	0.1%	0.1%	0.1%	0.0%	-0.1%
Stanton	55	43	22	9	-45.3%	0.1%	0.1%	0.0%	0.0%	-0.1%
Others	160	129	125	122	-8.7%	0.3%	0.2%	0.2%	0.2%	-0.1%
Total	55,395	58,518	63,444	67,290	6.7%	100.0%	100.0%	100.0%	100.0%	--

Note: 1990 figures incorporate a change in the Marlboro/Parliament mix, based on current projections. LRP volumes reflect this revision.

2500066272

Schedule R-3

REGIONAL HEADQUARTERS STAFF CENSUS

		1989 LE	1990 OB	1991	1992
Executive		7	7	7	7
Administration		18	18	18	18
Finance		22	22	22	22
Treasury & Bus. Develop.		12	11	11	11
Marketing Administration		30	31	31	31
Operations		42	41	42	43
Personnel		13	12	12	12
Planning		9	9	9	9
Corporate Affairs		6	6	6	6
Legal		7	7	7	7
Information & Communication Systems		24	24	24	24
Customer Services		8	9	9	10
Trainees		8	8	6	6
Total EEMA Headquarters		206	205	204	206
Total Overheads	CHF	52,874	58,524	60,538	64,936
Total Overheads	USD	32,319	33,064	34,202	36,687
Underlying cost escalation rate		6.0%	6.7%	6.7%	6.7%
Total Regional Headcount		1,659	1,683	1,701	1,718

2500066273

FOREIGN EXCHANGE RATE ASSUMPTIONS

Value of $ 1.00	RF 1989	OB 1990-1992	1989-1990 REVALUATION (DEVALUATION)
Swiss Franc	1.59	1.77	(10.2%)
Finnish Mark	4.35	4.40	(1.1%)
Swedish Krone	6.34	6.70	(5.4%)
Norwegian Krone	6.82	7.20	(5.3%)
Danish Krone	7.26	7.80	(6.9%)
French Franc	6.49	6.95	(6.6%)
Dutch Guilder	2.10	2.25	(6.7%)
German Mark	1.86	2.00	(7.0%)
Pound Sterling	1.76	1.58	(10.2%)
Turkish Lira	2290	2810	(29.5%)
Lebanese Pound	563	600	(6.2%)
Saudi Arabian Riyal	3.75	3.75	---
Kuwaiti Dinar	0.28	0.29	(3.4%)
Egyptian Pound	2.45	3.64	(32.7%)
Moroccan Dirham	8.33	9.10	(8.5%)

2500066274

2500066275

NEW BRANDS

H. **MARKET SCHEDULES - NEW BRAND AND LINE EXTENSIONS**

Note: All ex-factory and marginal contribution quotations are annual averages.

Retail prices represent year-end quotes.

Direct marketing per 000 represents the average for the family.

2500066276

TURKEY LICENSEE - LINE EXTENSION PROFILE

CHESTERFIELD 100 SOFT

We will launch Chesterfield in order to offer an alternative at Camel's price level. The advertising will be based on the international campaign. The brand has already been introduced in Turkey DF in November 1989, to begin building consumer awareness.

US-blend; 15 mg tar; 0.9 mg nicotine; 100 mm soft

		OB 1990	1991	1992
Unit Volume	(millions)	-	-	120.0
Market Share	(%)	-	-	0.16
Total Marginal Contribution	$/000	-	-	5.76 (a)
Direct Marketing	$/000	-	-	8.33 (b)

Launch Date 1992 but dependent on PM's ability to list a new brand.

Footnote:

(a) Represents PM's marginal contribution. It does not include any joint venture marginal contribution.

(b) DME paid by licensee.

2500066277

SWITZERLAND - LINE EXTENSION PROFILE

CHESTERFIELD FULL FLAVOR AND MILD

The introduction of Chesterfield King Size complements Marlboro Red in the US blend full flavor category and will become a second leg to counter Camel, Winston and Lucky Strike. Both versions, full flavor and mild, will be launched simultaneously, as 70% of beginners choose an LTN brand. In addition, we seek to establish both offerings before public deliberations on the proposed ad ban begin. The advertising will be in-line with the international campaign.

Full Flavor: US-blend; 14 mg tar; 1.0 mg nicotine; 84 mm box
Mild: US-blend; 9 mg tar; 0.7 mg nicotine; 84 mm box

CHESTERFIELD FULL FLAVOR

		OB 1990	1991	1992
Unit Volume (millions)		8.0	25.0	35.0
Market Share (%)		0.05	0.16	0.22
Retail Pack Price Year-End	CHF	3.10	3.20	3.30
Ex-Factory Price	$/000	23.62	24.34	24.96
Total Marginal Contribution	$/000	5.62	5.61	5.49
Direct Marketing	$/000	59.47	29.08	25.11

Launch Date September 1990

CHESTERFIELD MILD

		OB 1990	1991	1992
Unit Volume (millions)		8.0	40.0	52.0
Market Share (%)		0.05	0.26	0.33
Retail Pack Price Year-End	CHF	3.10	3.20	3.30
Ex-Factory Price	$/000	23.74	24.34	24.96
Total Marginal Contribution	$/000	5.76	5.64	5.52
Direct Marketing	$/000	59.47	29.08	25.11

Launch Date September 1990

2500066278

SWITZERLAND - LINE EXTENSION PROFILE

MERIT ULTRALIGHTS

The momentum of the launch of Merit Regular will be extended with the ultralight introduction to capitalize on the growing international ultra low tar segment. The introductory communication will focus on the product's benefits. In a second step, the advertising will be based on the sailing campaign.

US-blend; 4 mg tar; 0.4 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		30.0	50.0	65.0
Market Share (%)		0.19	0.32	0.41
Retail Pack Price Year-End	CHF	3.10	3.20	3.30
Ex-Factory Price	$/000	28.73	29.85	30.69
Total Marginal Contribution	$/000	18.91	19.64	20.12
Direct Marketing	$/000	(a)	(a)	(a)

Launch Date January 1990

Footnote:

(a) included in total family spending.

2500066279

SWITZERLAND - LINE EXTENSION PROFILE

MURATTI MILD

Muratti Mild will build on Muratti's technological heritage. It will also capitalize on the young lifestyle image the brand possesses. Muratti Mild will offer a US blend taste, and the new concentric filter technology. The brand is planned to be priced at the same level as Marlboro, i.e. 10 centimes higher than the current Muratti family, in order to reinforce the international positioning of Muratti Mild.

US-blend; 4 mg tar; 0.4 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		35.0	60.0	100.0
Market Share (%)		0.22	0.38	0.64
Retail Pack Price Year-End	CHF	3.10	3.20	3.30
Ex-Factory Price	$/000	28.86	29.85	30.69
Total Marginal Contribution	$/000	15.69	16.02	16.42
Direct Marketing	$/000	(a)	(a)	(a)

Launch Date April 1990

Footnote:

(a) included in total family spending.

MURATTI ULTRA

Muratti Ultra will build on Muratti's technological heritage by offering a novel ultra low tar product, possibly with a charcoal concentric filter. The brand is planned to be priced at the same level as Marlboro and Muratti Mild; i.e. 10 centimes higher than the current Muratti family.

US-blend; 1 or 2 mg tar; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	30.0	50.0
Market Share (%)		-	0.19	0.32
Retail Pack Price Year-End	CHF	-	3.20	3.30
Ex-Factory Price	$/000	-	29.85	30.69
Total Marginal Contribution	$/000	-	17.80	18.26
Direct Marketing	$/000	-	(a)	(a)

Launch Date April 1991

Footnote:

(a) included in total family spending.

2500066280

SWITZERLAND - LINE EXTENSION PROFILE

MARLBORO ULTRALIGHTS

Today, Marlboro is the only major international brand family without an offering in the ultralight segment. Hence, the ultra light line extension will improve our competitiveness against Camel, Winston and Barclay.

US-blend; 5.0 mg tar; 0.4 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	60.0	155.0
Market Share (%)		-	0.38	0.99
Retail Pack Price Year-End	CHF	-	3.20	3.30
Ex-Factory Price	$/000	-	29.85	30.69
Total Marginal Contribution	$/000	-	21.36	21.93
Direct Marketing	$/000	-	(a)	(a)
Launch Date	1991			

Footnote:

(a) included in total family spending.

2500066281

SWITZERLAND - LINE EXTENSION PROFILE

PHILIP MORRIS ULTRA LIGHTS 100 BOX

Philip Morris Ultra Lights 100s will take advantage of the family's growth momentum and lead the development of the 100 mm ultra light segment.

US-blend; 1 or 2 mg tar; 0.1 - 0.2 mg nicotine; 100 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	20.0	30.0
Market Share (%)		-	0.13	0.19
Retail Pack Price Year-End	CHF	-	3.20	3.30
Ex-Factory Price	$/000	-	31.28	32.30
Total Marginal Contribution	$/000	-	19.53	20.18
Direct Marketing	$/000	-	(a)	(a)

Launch Date 1991

Footnote:

(a) included in total family spending.

PHILIP MORRIS LIGHTS BOX

Philip Morris Lights will build on the successful Philip Morris franchise by offering a full flavor line extension, supplementing the existing PM Extra 4mg tar and PM Ultra at 1 mg tar.

US-blend; 8 mg tar; 0.8 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	-	20.0
Market Share (%)		-	-	0.13
Retail Pack Price Year-End	CHF	-	-	3.30
Ex-Factory Price	$/000	-	-	30.69
Total Marginal Contribution	$/000	-	-	21.91
Direct Marketing	$/000	-	-	(a)

Launch Date 1992

Footnote:

(a) included in total family spending.

2500066282

SWITZERLAND - LINE EXTENSION PROFILE

MERIT DE NIC

We will build on Merit's technological heritage and success by line-extending with a breakthrough product aimed at consumers concerned by the nicotine level.

US-blend; 6 mg tar; 0 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	-	10.0
Market Share (%)		-	-	0.06
Retail Pack Price Year-End	CHF	-	-	3.30
Ex-Factory Price	$/000	-	-	30.69
Total Marginal Contribution	$/000	-	-	11.18
Direct Marketing	$/000	-	-	(a)

Launch Date 1992

Footnote:

(a) included in total family spending.

FINLAND - NEW BRAND PROFILE

CHESTERFIELD

Chesterfield will be positioned as an alternative to Camel for the smokers who want an international brand other than Marlboro. The domestic launch will be supported by the introduction of the brand in the duty free business in order to expose Finnish consumers to the international image campaign.

US-blend; 15mg tar; 0.9 mg nicotine; 84 mm soft

		OB 1990	1991	1992
Unit Volume (millions)		22.4	40.0	60.0
Market Share (%)		0.30	0.54	0.81
Retail Pack Price Year-End	FIM	13.80	14.80	15.30
Ex-Factory Price	$/000	20.19	22.26	23.90
Total Marginal Contribution	$/000	11.39	13.11	14.43
Direct Marketing	$/000	8.42	7.96	6.06

Launch Date 1990

2500066284

FINLAND - LINE EXTENSION PROFILE

MARLBORO ULTRALIGHTS

The Marlboro Ultralights line extension will exploit the growing Marlboro franchise, providing an alternative in the premium ultralight segment to attract smokers away from Barclay.

US-blend; 4 mg tar; 0.4 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume	(millions)	-	40.0	50.0
Market Share	(%)	-	0.54	0.67
Retail Pack Price Year-End	FIM	-	14.80	15.90
Ex-Factory Price	$/000	-	25.95	27.88
Total Marginal Contribution	$/000	-	10.44	11.65
Direct Marketing	$/000	-	(a)	(a)
Launch Date	1991			

Footnote:

(a) included in total family spending.

2500066285

FINLAND - LINE EXTENSION PROFILE

BELMONT 2002 MENTHOL BOX

Belmont 2002 Menthol will offer a low tar Belmont menthol line extension capitalizing on the overall success of the Belmont family, in particular Belmont 2002, and the growth of the light and menthol segments.

US-blend; 5 mg tar; 0.5 mg nicotine; 80 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	15.0	24.0
Market Share (%)		-	0.20	0.32
Retail Pack Price Year-End	FIM	-	14.20	15.30
Ex-Factory Price	$/000	-	24.90	26.83
Total Marginal Contribution	$/000	-	9.01	10.16
Direct Marketing	$/000	-	(a)	(a)

Launch Date 1991

Footnote:

(a) included in total family spending.

2500066286

FINLAND - NEW BRAND PROFILE

PHILIP MORRIS SUPERLIGHTS BOX

Philip Morris Superlights will reinforce our presence in the growing superlight segment to better contain Barclay, and have a second international entry, in addition to Marlboro, throughout the Scandinavia/Finland Region.

US-blend; 4 mg tar; 0.4 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	-	30.0
Market Share (%)		-	-	0.40
Retail Pack Price Year-End	FIM	-	-	15.90
Ex-Factory Price	$/000	-	-	27.88
Total Marginal Contribution	$/000	-	-	11.14
Direct Marketing	$/000	-	-	11.36

Launch Date 1992

2500066287

SAUDI ARABIA - LINE EXTENSION PROFILE

MERIT DE NIC

Merit De Nic will rejuvenate the Merit family via the launch of the nicotine-free product to appeal to the increasing proportion of health-conscious smokers. If successful in Saudi, the brand will be launched in other GCC markets. It is planned for launch in Kuwait in 1991.

US-blend; 6 mg tar; 0 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		29.0	40.0	55.4
Market Share (%)		0.22	0.30	0.42
Carton Price Year-End	SR	33.00	33.00	33.00
Retail Pack Price Year-End	SR	3.50	3.50	3.50
Ex-Factory Price	$/000	22.60	22.60	22.60
Total Marginal Contribution	$/000	7.24	6.63	6.00
Direct Marketing	$/000	(a)	5.63	4.73

Launch Date 1990

Footnote:

(a) included in total family spending.

2500066288

SAUDI ARABIA - LINE EXTENSION PROFILE

MARLBORO ULTRALIGHTS

Marlboro Ultralights will be launched to extend and strengthen the Marlboro franchise by offering an alternative in the rapidly growing premium price ultralight category.

US-blend; 5.0 mg tar; 0.4 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	53.0	86.0
Market Share (%)		-	0.40	0.65
Carton Price Year-End	SR	-	33.00	33.00
Retail Pack Price Year-End	SR	-	3.50	3.50
Ex-Factory Price	$/000	-	22.60	22.60
Total Marginal Contribution	$/000	-	12.45	12.06
Direct Marketing	$/000	-	7.08	2.53

Launch Date 1991

2500066289

KUWAIT - NEW BRAND PROFILE

CONGRESS

Congress will be launched in the low price segment to reinforce our brand portfolio in that segment in order to contest Gold Coast and Viceroy. The launch will be undertaken as soon as possible, and followed by the launch of a light version.

Full Flavor: US-blend; 12 mg tar; 0.8 mg nicotine; 84 mm box

Lights : US-blend; 8 mg tar; 0.6 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	20.0	22.0
Market Share (%)		-	0.75	0.82
Carton Price Year-End	KWD	-	1.80	1.80
Retail Pack Price Year-End	KWD	-	0.19	0.19
Ex-Factory Price	$/000	-	13.50	13.50
Total Marginal Contribution	$/000	-	4.98	4.71
Direct Marketing	$/000	-	2.13	2.27

Launch Date 1991

2500066290

KUWAIT - NEW BRAND PROFILE

PARLIAMENT

Parliament will reinforce our presence in the premium price segment. The product will be made in the USA. The advertising campaign will be similar to that in Turkey. We will follow with a Parliament Lights launch, if Parliament's full flavor results are positive.

Full Flavor: US-blend; 12 mg tar; 0.8 mg nicotine; 83 mm box

Lights : US-blend; 8 mg tar; 0.6 mg nicotine; 83 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	12.0	15.0
Market Share (%)		-	0.45	0.56
Carton Price Year-End	KWD	-	3.10	3.10
Retail Pack Price Year-End	KWD	-	0.32	0.32
Ex-Factory Price	$/000	-	25.90	25.90
Total Marginal Contribution	$/000	-	14.47	14.02
Direct Marketing	$/000	-	16.25 (a)	13.60 (a)

Launch Date 1991

Test Market date 1990

Footnote:

(a) Before any marketing contribution of $2.00/000.

2500066291

KUWAIT - LINE EXTENSION PROFILE

MARLBORO ULTRALIGHTS

As in Saudi Arabia, Marlboro Ultralights will be launched to extend and strengthen the Marlboro franchise by offering an alternative in the growing premium price ultra category.

US-blend; 5 mg tar; 0.4 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	20.0	30.0
Market Share (%)		-	0.75	1.1
Carton Price Year-End	KWD	-	3.10	3.10
Retail Pack Price Year-End	KWD	-	0.32	0.32
Ex-Factory Price	$/000	-	25.90	25.90
Total Marginal Contribution	$/000	-	15.75	15.36
Direct Marketing	$/000	-	15.00 (a)	11.00 (a)

Launch Date 1991

Footnote:

(a) Before any marketing contribution of $2.00/000.

2500066292

KUWAIT - LINE EXTENSION PROFILE

MERIT DE NIC

Merit De Nic will accelerate the Merit family's momentum via the launch of the nicotine-free product to appeal to the increasing proportion of health-conscious smokers.

US-blend; 6 mg tar; 0 mg nicotine; 84 mm box

		OB 1990	1991	1992
Unit Volume (millions)		-	10.0	20.0
Market Share (%)		-	0.37	0.75
Carton Price Year-End	KWD	-	3.10	3.10
Retail Pack Price Year-End	KWD	-	0.32	0.32
Ex-Factory Price	$/000	-	25.90	25.90
Total Marginal Contribution	$/000	-	10.19	9.56
Direct Marketing	$/000	-	12.50 (a)	6.65 (a)

Launch Date 1991

Footnote:

(a) Before any marketing contribution.

2500066293

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